

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Traverse City	County Grand Traverse
Audit Date June 30, 2005	Opinion Date October 28, 2005	Date Accountant Report Submitted to State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

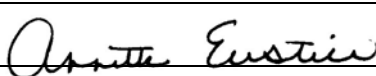
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

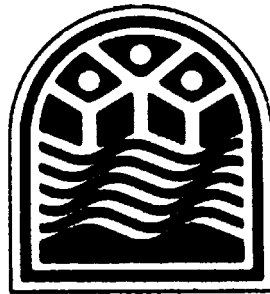
You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON ANNETTE EUSTICE, CPA, CGFM			
Street Address 250 EAST FRONT STREET	City TRAVERSE CITY	State MI	Zip 49684
Accountant Signature 			

# **CITY OF TRAVERSE CITY, MICHIGAN**



## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
June 30, 2005**

# CITY OF TRAVERSE CITY, MICHIGAN

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# **CITY OF TRAVERSE CITY, MICHIGAN**

## **List of Elected and Appointed Officials For the Fiscal Year Ended June 30, 2005**

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### **Elected Officials**

Mayor  
Mayor Pro Tem  
Commission Member  
Commission Member  
Commission Member  
Commission Member  
Commission Member

Linda Smyka  
Rick Csapo  
Ralph Soffredine  
Scott Hardy  
Jack Boynton  
Anne Melichar  
T. Michael Jackson

### **Appointed Officials**

Manager  
Clerk  
Attorney  
Treasurer

Richard I. Lewis  
Debbra A. Curtiss  
W. Peter Doren  
William E. Twietmeyer



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

## **INDEPENDENT AUDITORS' REPORT**

October 28, 2005

The Honorable Mayor and  
Members of the City Commission  
City of Traverse City  
Grand Traverse County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Traverse City, Michigan*** (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the *Traverse City Housing Commission* discrete component unit, which represents 4.7 percent and 6.8 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the *Traverse City Housing Commission* discrete component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Traverse City, Michigan***, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-12 and the pension information on page 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Traverse City, Michigan's*** basic financial statements. The combining and individual fund financial statements and schedules, and the statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



## Management's Discussion and Analysis

As management of the *City of Traverse City, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$83,941,429 (*net assets*). Of this amount, \$16,376,533 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,000,234.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,720,075, an increase of \$809,058 in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$3,023,026 or 24 percent of total general fund expenditures and transfers out.
- The City's total long-term debt decreased by \$1,060,785 due to payments of principal on current debt. There were no new debt issues during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include wastewater, water, marina and auto parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities – the Downtown Development Authority, Traverse City Light and Power and The Traverse City Housing Commission which are discretely presented component units of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

## **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, Public Improvement, and Brown Bridge Trust Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-22 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, marina and auto parking system operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its municipal garage and employee health benefit activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, marina, and auto parking system, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 23-28 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-64 of this report.

### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds is presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 66-109 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Traverse City, assets exceeded liabilities by \$83,941,429 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (68 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## City of Traverse City's Net Assets

	2005			2004		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 26,976,965	\$ 5,313,557	\$ 32,290,522	\$25,593,831	\$6,911,539	\$ 32,505,370
Capital assets	<u>34,720,550</u>	<u>53,176,535</u>	<u>87,897,085</u>	<u>35,887,038</u>	<u>51,726,212</u>	<u>87,613,250</u>
Total assets	<u>61,697,515</u>	<u>58,490,092</u>	<u>120,187,607</u>	<u>61,480,869</u>	<u>58,637,751</u>	<u>120,118,620</u>
Long-term liabilities						
outstanding	11,594,909	20,785,123	32,380,032	11,583,144	21,857,674	33,440,818
Other liabilities	<u>1,401,862</u>	<u>2,421,605</u>	<u>3,823,467</u>	<u>1,875,412</u>	<u>2,861,195</u>	<u>4,736,607</u>
Total liabilities	<u>12,996,771</u>	<u>23,206,728</u>	<u>36,203,499</u>	<u>13,458,556</u>	<u>24,718,869</u>	<u>38,177,425</u>
Net assets						
Invested in capital						
assets, net of						
related debt	24,709,279	32,447,437	57,156,716	24,927,038	29,946,329	54,873,367
Restricted assets	9,911,021	497,159	10,408,180	9,264,184	1,753,547	11,017,731
Unrestricted	<u>14,037,765</u>	<u>2,338,768</u>	<u>16,376,533</u>	<u>13,831,091</u>	<u>2,219,006</u>	<u>16,050,097</u>
<b>Total net assets</b>	<b><u>\$ 48,658,065</u></b>	<b><u>\$35,283,364</u></b>	<b><u>\$ 83,941,429</u></b>	<b><u>\$48,022,313</u></b>	<b><u>\$33,918,882</u></b>	<b><u>\$ 81,941,195</u></b>

The remaining balance of *unrestricted net assets* (19 percent or \$16,376,533) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the governmental and business type activities.

The government's net assets increased by \$2,000,234 during the current fiscal year. The only increase is attributable to growth in business type activities which largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

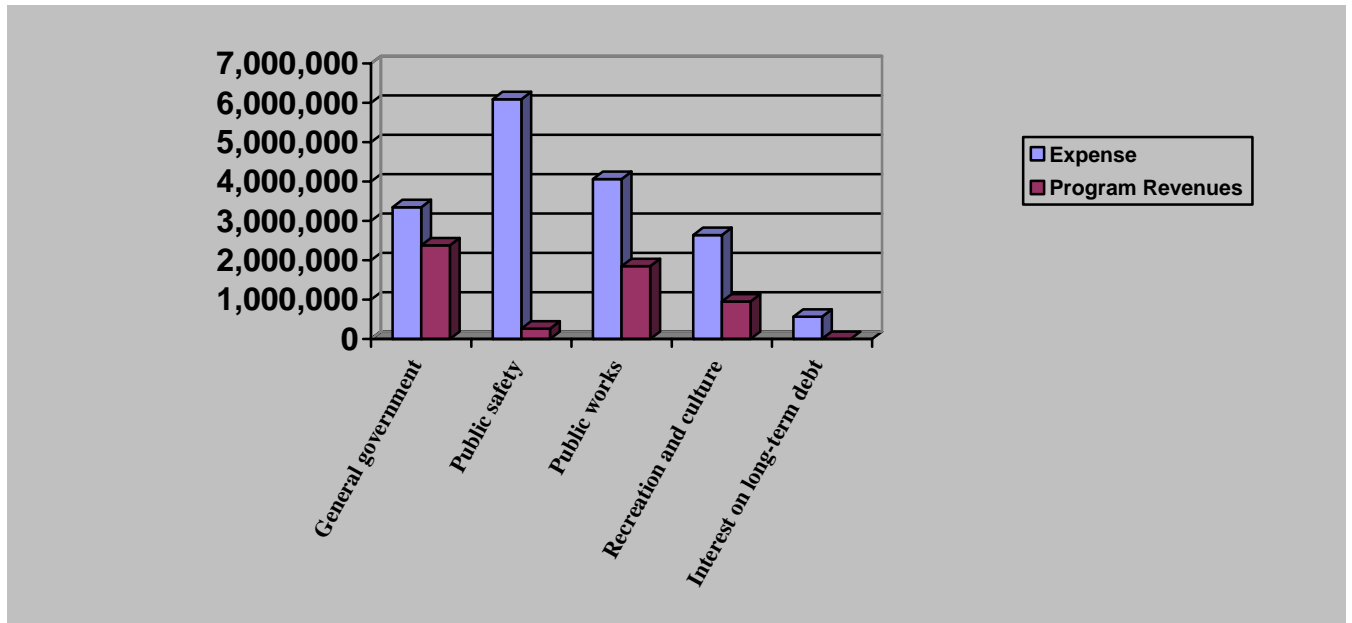
## City of Traverse City's Changes in Net Assets

	2005			2004		
	Governmental Activities	Business type Activities	Total	Governmental Activities	Business-type Activities	Total
Program revenue						
Charges for services	\$ 2,465,287	\$ 8,680,996	\$11,146,283	\$ 2,143,885	\$ 7,557,868	\$ 9,701,753
Operating grants and contributions	2,222,954	-	2,222,954	1,830,278	-	1,830,278
Capital grants and contributions	757,398	5,363	762,761	1,299,220	561,712	1,860,932
General revenue						
Property taxes	9,137,587	-	9,137,587	8,525,396	-	8,525,396
Grants and contributions not restricted to specific programs	1,410,184	-	1,410,184	1,422,431	-	1,422,431
Franchise Revenue	172,322	-	172,322	170,092	-	170,092
Other	<u>1,178,525</u>	<u>98,953</u>	<u>1,277,478</u>	<u>525,460</u>	<u>337,758</u>	<u>863,218</u>
Total revenue	<u>17,344,257</u>	<u>8,785,312</u>	<u>26,129,569</u>	<u>15,916,762</u>	<u>8,457,338</u>	<u>24,374,100</u>
Expenses						
General government	3,347,717	-	3,347,717	4,841,050	-	4,841,050
Public safety	6,090,727	-	6,090,727	5,454,347	-	5,454,347
Public works	4,062,360	-	4,062,360	4,362,558	-	4,362,558
Recreation and culture	2,641,108	-	2,641,108	2,644,272	-	2,644,272
Interest on long-term debt	566,593	-	566,593	560,844	-	560,844
Wastewater	-	4,049,337	4,049,337	-	3,555,974	3,555,974
Water	-	1,989,226	1,989,226	-	1,936,586	1,936,586
Marina	-	541,887	541,887	-	522,640	522,640
Auto Parking	<u>-</u>	<u>840,380</u>	<u>840,380</u>	<u>-</u>	<u>875,038</u>	<u>875,038</u>
Total expenses	<u>16,708,505</u>	<u>7,420,830</u>	<u>24,129,335</u>	<u>17,863,071</u>	<u>6,890,238</u>	<u>24,753,309</u>
Increase (decrease) in net assets	635,752	1,364,482	2,000,234	(1,946,309)	1,567,100	(379,209)
Net assets – beginning of year	<u>48,022,313</u>	<u>33,918,882</u>	<u>81,941,195</u>	<u>49,968,622</u>	<u>32,351,782</u>	<u>82,320,404</u>
<b>Net assets – end of year</b>	<b><u>\$48,658,065</u></b>	<b><u>\$35,283,364</u></b>	<b><u>\$83,941,429</u></b>	<b><u>\$48,022,313</u></b>	<b><u>\$33,918,882</u></b>	<b><u>\$ 81,941,195</u></b>

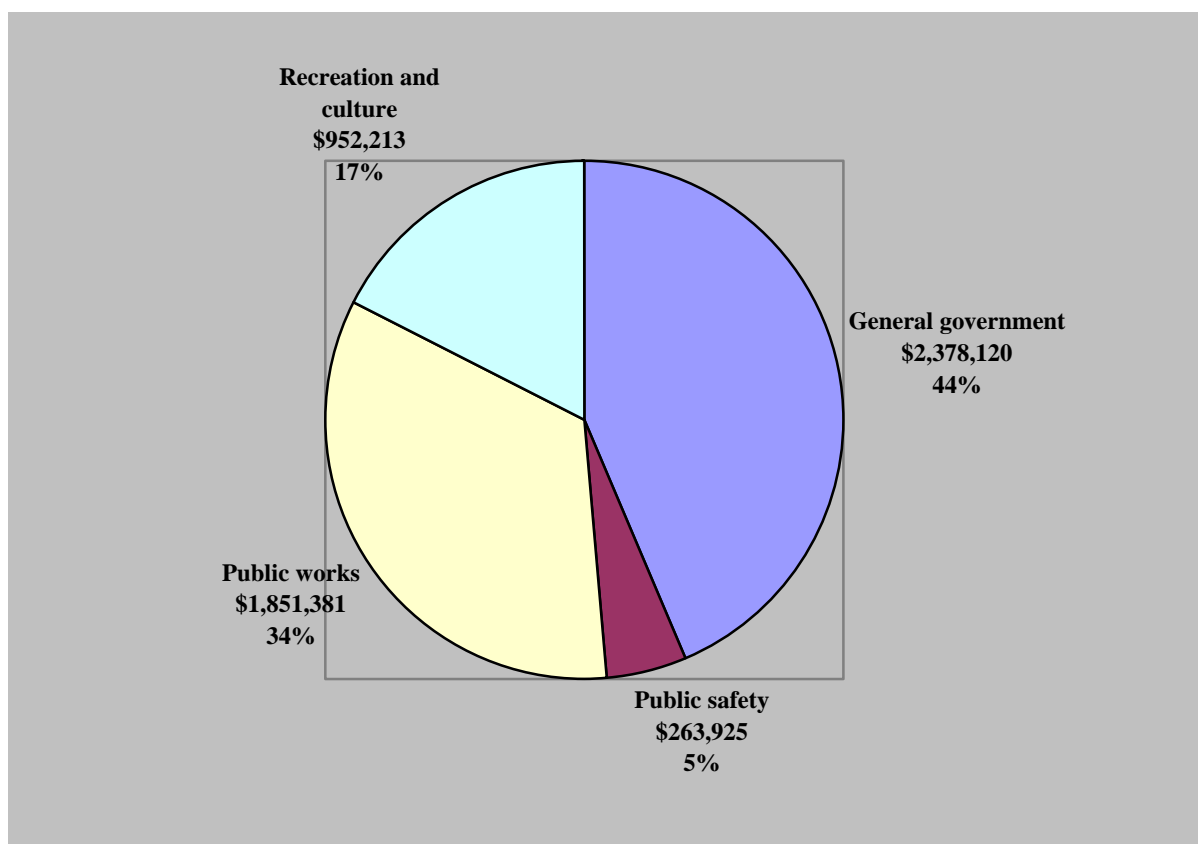
**Governmental activities.** Governmental activities increased the City's net assets by \$635,752, accounting for about one third of the growth in the net assets of the City. Key highlights are as follows:

- Total expenses for the General Fund were \$923,899 higher than the previous year. However, revenue was also \$995,756 higher than the previous year.
- Total revenue for the Brown Bridge Trust Fund were \$466,375 higher than the previous year due to larger payments for oil and gas royalties from Brown Bridge property.

## Expenses and Program Revenues – Governmental Activities



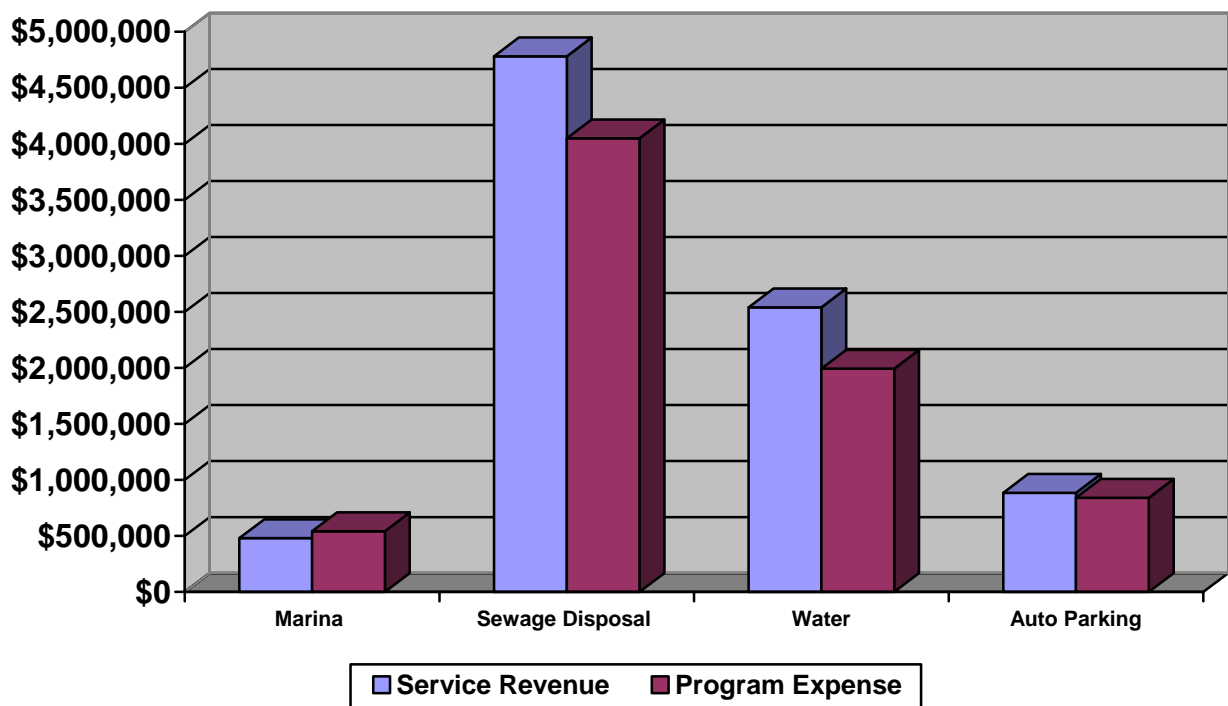
## Revenues by Source – Governmental Activities



Business-type activities increased the City's net assets by \$1,364,482, accounting for two thirds of the growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Total revenue in the water fund is \$475,154 higher than the prior year due mostly to reimbursement from another government unit for installation of a main transmission line.
- Total non-operating revenue in the internal service fund is \$313,309 higher than the previous year due mostly to a gain on sale of fixed assets.
- Total change in net assets in the wastewater fund was \$780,047.

### Expenses and Program Revenues - Business-type Activities



## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,720,075, an increase of \$809,058 in comparison with the prior year. Approximately \$6,200,000 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$3,023,026. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 24 percent of total general fund expenditures including transfers out.

The fund balance of the City's General Fund decreased by \$38,445 during the current fiscal year. This is primarily attributable to continued decreases in state revenue sharing.

The Major Street Fund has a total fund balance of \$284,103 which decreased by \$54,245 during the year. Original budget estimates anticipated a reduction to fund balance due to various maintenance activities.

The Local Street Fund has a fund balance for the current year of \$0. All expenses not covered by state sources are covered by the general fund via a transfer of funds.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the wastewater, water, marina and auto parking system funds at the end of the year amounted to \$2,305,237, with capital assets net of related debt of \$32,447,437. The Water Fund had an increase in net assets for the year of \$573,526, the Wastewater Fund had an increase of \$780,047, the Marina Fund decreased \$55,117, and the Auto Parking System had an increase in net assets of \$63,225.

## **General Fund Budgetary Highlights**

During the year, general fund revenues were over budgetary estimates by \$75,445 while other financing sources, namely net transfers were under budgetary estimates by \$281,194. In addition, actual expenditures were under budgetary estimates by \$458,716. As a result, the fund balance decreased by only \$38,445 which was less than the budgeted estimate of \$815,355.

## **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$87,897,085 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 0.1 percent (a 3.2 percent decrease for governmental activities and a 2.8 percent increase for business-type activities).



Major capital asset events during the current fiscal year included the following:

- Final completion of the wastewater treatment plant renovation with an additional cost of approximately \$1,499,347.
- A major water transmission line extension totaling \$597,193.

### City of Traverse City's Capital Assets (net of depreciation)

	2005			2004		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$11,183,813	\$ 965,043	\$12,148,856	\$11,161,813	\$ 965,044	\$12,126,857
Land improvement	1,606,447	8,376,302	9,982,749	1,520,998	8,376,302	9,897,300
Buildings and systems	9,881,955	26,892,664	36,774,619	10,264,393	8,640,143	18,904,539
Construction in progress	-	800	800	-	17,267,833	17,267,833
Equipment	4,788,370	6,031,922	10,820,292	4,806,652	5,573,196	10,379,848
Infrastructure and other improvements	<u>7,259,965</u>	<u>10,909,804</u>	<u>18,169,769</u>	<u>8,133,179</u>	<u>10,903,694</u>	<u>19,036,873</u>
<b>TOTAL</b>	<b><u>\$34,720,550</u></b>	<b><u>\$53,176,535</u></b>	<b><u>\$87,897,085</u></b>	<b><u>\$35,887,038</u></b>	<b><u>\$51,726,212</u></b>	<b><u>\$87,613,250</u></b>

Additional information on the City's capital assets can be found in Note III.C on pages 46-50 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt and lease payables of \$31,679,098. Of this amount, \$10,950,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases and bonds secured solely by specified revenue sources (i.e., revenue bonds).

### City of Traverse City's Outstanding Debt General Obligation and Revenue Bonds

	2005			2004		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$10,950,000	\$ -	\$10,950,000	\$10,960,000	\$ -	\$ 10,960,000
Lease payable	-	19,054,098	19,054,098	-	19,954,883	19,954,883
Revenue bonds	<u>-</u>	<u>1,675,000</u>	<u>1,675,000</u>	<u>-</u>	<u>1,825,000</u>	<u>1,825,000</u>
<b>TOTAL</b>	<b><u>\$10,950,000</u></b>	<b><u>\$20,729,098</u></b>	<b><u>\$31,679,098</u></b>	<b><u>\$10,960,000</u></b>	<b><u>\$21,779,883</u></b>	<b><u>\$ 32,739,883</u></b>

The City's total debt decreased by \$1,060,785 net after payments during the current fiscal year as a result of no new debt issuance.

The City has a "A" rating from Standard & Poor's for its Electric Revenue Bond issue and a "AAA" rating from Fitch and Standard and Poors for the Long-Term General Obligation Bond issue for the parking deck.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$56,327,464, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 52-55 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- An increase of 5% in health care costs were factored in all budgets.
- No change in the amount of state revenue sharing funds is factored in the budget.
- Current labor contracts with various union bargaining groups resulted in approximately 3% wage increases that are factored in the budget.

During the current fiscal year, unreserved fund balance in the general fund totaled \$3,442,176. The City has appropriated approximately \$439,150 of this amount for spending in the 2005-06 fiscal year budgets. Such appropriations are intended to finance part of various capital acquisitions and improvements, to which the General Fund contributes \$154,000.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 400 Boardman Avenue, Traverse City, Michigan 49684 or via email or by visiting our website at [www.ci.traverse-city.mi.us](http://www.ci.traverse-city.mi.us) for additional supplemental budgetary information.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 9,544,479	\$ 3,299,292	\$ 12,843,771
Investments	14,037,629	474,613	14,512,242
Receivables, net	1,607,750	1,039,451	2,647,201
Due from component unit	446,630	-	446,630
Advances to primary government	-	-	-
Internal balances	988,479	(988,479)	-
Inventory	147,036	111,576	258,612
Prepaid items and other assets	54,284	29,945	84,229
Restricted assets	-	497,159	497,159
Land	11,183,813	965,043	12,148,856
Construction in progress	-	800	800
Capital assets, net	23,536,737	52,210,692	75,747,429
<b>Total assets</b>	<b>61,546,837</b>	<b>57,640,092</b>	<b>119,186,929</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	1,191,955	721,605	1,913,560
Unearned revenue	-	-	-
Due to primary government	-	-	-
Advances from component units	101,907	850,000	951,907
Long-term liabilities			
Due within one year	20,328	1,089,910	1,110,238
Due in more than one year	11,574,581	19,695,213	31,269,794
<b>Total liabilities</b>	<b>12,888,771</b>	<b>22,356,728</b>	<b>35,245,499</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	24,709,279	32,447,437	57,156,716
Restricted for			
Debt service	-	280,859	280,859
Capital projects	-	216,300	216,300
Nonexpendable brown bridge trust	9,367,079	-	9,367,079
Nonexpendable cemetery perpetual trust	543,942	-	543,942
Unrestricted	14,037,766	2,338,768	16,376,534
<b>Total net assets</b>	<b>\$ 48,658,066</b>	<b>\$ 35,283,364</b>	<b>\$ 83,941,430</b>

The accompanying notes are an integral part of these financial statements.

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Component Units		
Downtown Development Authority	Light and Power	Housing Commission
\$ 808,963	\$ 4,966,882	\$ 217,407
-	11,911,707	147,591
2,357,749	3,317,601	97,846
-	-	-
-	951,907	-
-	-	-
-	776,322	-
3,200	47,299	26,309
-	323,096	31,977
-	843,173	297,665
-	3,760,028	-
-	29,974,364	2,043,380
<b>3,169,912</b>	<b>56,872,379</b>	<b>2,862,175</b>
24,705	3,071,820	219,996
-	-	7,530
226,675	198,373	21,582
-	-	-
-	310,000	-
28,528	338,948	3,289
<b>279,908</b>	<b>3,919,141</b>	<b>252,397</b>
-	34,267,565	2,341,045
-	13,096	-
-	-	-
-	-	-
-	-	-
2,890,004	18,672,577	268,733
<b>\$ 2,890,004</b>	<b>\$ 52,953,238</b>	<b>\$ 2,609,778</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities					
General government	\$ 3,347,717	\$ 1,050,998	\$ 691,690	\$ 635,432	\$ (969,597)
Public safety	6,090,727	59,488	82,471	121,966	(5,826,802)
Public works	4,062,360	579,498	1,271,883	-	(2,210,979)
Recreation and cultural	2,641,108	775,303	176,910	-	(1,688,895)
Interest on long-term debt	566,593	-	-	-	(566,593)
Total governmental activities	<u>16,708,505</u>	<u>2,465,287</u>	<u>2,222,954</u>	<u>757,398</u>	<u>(11,262,866)</u>
Business-type activities					
Wastewater	4,049,337	4,781,389	-	-	732,052
Water	1,989,226	2,539,838	-	-	550,612
Marina	541,887	479,958	-	-	(61,929)
Autoparking	840,380	879,811	-	5,363	44,794
Total business-type activities	<u>7,420,830</u>	<u>8,680,996</u>	<u>-</u>	<u>5,363</u>	<u>1,265,529</u>
<b>Total primary government</b>	<u><b>\$ 24,129,335</b></u>	<u><b>\$ 11,146,283</b></u>	<u><b>\$ 2,222,954</b></u>	<u><b>\$ 762,761</b></u>	<u><b>\$ 9,997,337</b></u>
<b>Component units</b>					
Downtown development authority	\$ 1,179,786	\$ 1,050,706	\$ -	\$ -	\$ (129,080)
Light and power	23,492,610	24,614,738	-	-	1,122,128
Housing commission	1,882,709	368,485	1,235,448	115,323	(163,453)
<b>Total component units</b>	<u><b>\$ 26,555,105</b></u>	<u><b>\$ 26,033,929</b></u>	<u><b>\$ 1,235,448</b></u>	<u><b>\$ 115,323</b></u>	<u><b>\$ 829,595</b></u>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

<b>Functions/Programs</b>	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (11,262,866)	\$ 1,265,529	\$ (9,997,337)
General revenues			
Taxes			
Property taxes	9,137,587	-	9,137,587
Grants and contributions not restricted to specific programs	1,410,184	-	1,410,184
Franchise revenue	172,322	-	172,322
Unrestricted investment earnings	848,835	98,953	947,788
Gain on sale of capital assets	326,048	-	326,048
Contribution to endowment	3,643	-	3,643
Special item	-	-	-
Total general revenues and contributions	11,898,619	98,953	11,997,572
Change in net assets	635,753	1,364,482	2,000,235
Net assets, beginning of year, as restated	48,022,313	33,918,882	81,941,195
<b>Net assets, end of year</b>	<b>\$ 48,658,066</b>	<b>\$ 35,283,364</b>	<b>\$ 83,941,430</b>

The accompanying notes are an integral part of these financial statements.

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Component Units		
<u>Downtown Development Authority</u>	<u>Light and Power</u>	<u>Housing Commission</u>
\$ (129,080)	\$ 1,122,128	\$ (163,453)
1,113,385	-	-
-	-	71,813
-	-	-
13,216	531,420	57,241
-	-	922
-	-	-
-	(1,029,416)	-
<u>1,126,601</u>	<u>(497,996)</u>	<u>129,976</u>
997,521	624,132	(33,477)
<u>1,892,483</u>	<u>52,329,106</u>	<u>2,643,255</u>
<u><u>\$ 2,890,004</u></u>	<u><u>\$ 52,953,238</u></u>	<u><u>\$ 2,609,778</u></u>
Concluded		

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Public Improvement</u>	<u>Brown Bridge Trust Fund</u>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 1,550,831	\$ 173,006	\$ -	\$ 2,152,239	\$ 137,142
Investments	1,269,613	-	-	68,240	9,279,538
Receivables					
Accounts	142,646	5,763	-	188,000	-
Interest	-	-	-	-	58,550
Taxes	119,267	-	-	-	-
Special assessments	-	-	-	-	-
Due from other governments	456,443	146,678	91,868	-	-
Due from other funds	412,291	-	-	-	-
Due from component unit	219,955	-	-	-	-
Inventory	37,311	-	-	-	-
Prepaid items and other assets	50,389	-	-	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b><u>\$ 4,258,746</u></b>	<b><u>\$ 325,447</u></b>	<b><u>\$ 91,868</u></b>	<b><u>\$ 2,408,479</u></b>	<b><u>\$ 9,475,230</u></b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$ 177,112	\$ 30,119	\$ 7,948	\$ 4,738	\$ -
Accrued and other liabilities	338,039	11,225	17,516	-	-
Due to other funds	-	-	66,404	-	108,151
Deposits payable	72,840	-	-	-	-
Advances from other funds	72,000	-	-	-	-
Advance from component unit	-	-	-	-	-
Deferred revenue	119,267	-	-	-	-
<b>Total liabilities</b>	<b><u>779,258</u></b>	<b><u>41,344</u></b>	<b><u>91,868</u></b>	<b><u>4,738</u></b>	<b><u>108,151</u></b>
<b>Fund balance</b>					
Reserved for					
Perpetual care	-	-	-	-	-
Open space	-	-	-	-	-
Recreation and culture	-	-	-	-	9,367,079
Prepaid items	-	-	-	-	-
Inventory	37,311	-	-	-	-
Capital projects	-	-	-	2,403,741	-
Unreserved					
Designated for subsequent years' expenditures	419,150	84,250	-	-	-
Undesignated	3,023,027	199,853	-	-	-
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	-	-
<b>Total fund balance</b>	<b><u>3,479,488</u></b>	<b><u>284,103</u></b>	<b><u>-</u></b>	<b><u>2,403,741</u></b>	<b><u>9,367,079</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 4,258,746</u></b>	<b><u>\$ 325,447</u></b>	<b><u>\$ 91,868</u></b>	<b><u>\$ 2,408,479</u></b>	<b><u>\$ 9,475,230</u></b>

The accompanying notes are an integral part of these financial statements.



<b>Other Governmental Funds</b>	<b>Total</b>
\$ 3,753,842	\$ 7,767,060
1,445,858	12,063,249
12,793	349,202
-	58,550
5,422	124,689
355,261	355,261
19,577	714,566
3,271	415,562
226,675	446,630
-	37,311
297	50,686
958,000	958,000
<b>\$ 6,780,996</b>	<b>\$ 23,340,766</b>

\$ 56,868	\$ 276,785
78,205	444,985
68,997	243,552
-	72,840
36,000	108,000
101,907	101,907
253,354	372,621
<b>595,331</b>	<b>1,620,690</b>

543,942	543,942
36,882	36,882
-	9,367,079
297	297
-	37,311
2,566,861	4,970,602
61,500	564,900
-	3,222,880
2,976,183	2,976,183
<b>6,185,665</b>	<b>21,720,076</b>
<b>\$ 6,780,996</b>	<b>\$ 23,340,766</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

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**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds \$ 21,720,076

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	63,584,126
Subtract: accumulated depreciation	(34,597,862)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred property taxes	119,267
Add: other deferred revenues	253,354

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	9,283,645
--	-----------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(10,950,000)
Subtract: compensated absences	(613,017)
Subtract: accrued interest on long-term liabilities	(141,523)

<b>Net assets of governmental activities</b>	<b><u>\$ 48,658,066</u></b>
--	-----------------------------

Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Public Improvement</u>	<u>Brown Bridge Trust</u>
<b>Revenues</b>					
Property taxes and special assessments	\$ 7,552,857	\$ -	\$ -	\$ -	\$ -
Licenses and permits	207,619	-	-	-	-
Federal sources	67,730	-	-	169,541	-
State sources	1,410,184	935,752	336,131	-	-
Local sources	1,562,238	-	-	-	-
Charges for services	434,465	-	-	-	484,330
Fines and forfeits	86,207	-	-	-	-
Reimbursement	519,368	-	-	-	-
Contributions	-	-	-	240,891	-
Interest income	162,631	2,351	-	48,804	419,554
Other revenue	334,447	-	-	266,543	-
<b>Total revenues</b>	<b>12,337,746</b>	<b>938,103</b>	<b>336,131</b>	<b>725,779</b>	<b>903,884</b>
<b>Expenditures</b>					
Current expenditures					
General government	2,611,350	-	-	-	-
Public safety	6,253,646	-	-	-	-
Public works	963,811	1,062,348	1,017,441	-	-
Recreation and cultural	1,903,577	-	-	-	-
Community development	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest expense and financial charges	-	-	-	-	-
Capital outlay	-	-	-	627,687	-
<b>Total expenditures</b>	<b>11,732,384</b>	<b>1,062,348</b>	<b>1,017,441</b>	<b>627,687</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	605,362	(124,245)	(681,310)	98,092	903,884
<b>Other financing sources (uses)</b>					
Transfers in	328,431	70,000	681,310	72,827	-
Transfers out	(972,237)	-	-	-	(271,476)
<b>Total other financing sources (uses)</b>	<b>(643,806)</b>	<b>70,000</b>	<b>681,310</b>	<b>72,827</b>	<b>(271,476)</b>
<b>Net change in fund balances</b>	<b>(38,444)</b>	<b>(54,245)</b>	<b>-</b>	<b>170,919</b>	<b>632,408</b>
Fund balance, beginning of year	3,517,932	338,348	-	2,232,822	8,734,671
<b>Fund balance, end of year</b>	<b>\$ 3,479,488</b>	<b>\$ 284,103</b>	<b>\$ -</b>	<b>\$ 2,403,741</b>	<b>\$ 9,367,079</b>

The accompanying notes are an integral part of these financial statements.

<b>Other Governmental Funds</b>		<b>Total</b>
\$	127,584	\$ 7,680,441
	-	207,619
	154,310	391,581
	43,883	2,725,950
	646,693	2,208,931
	186,479	1,105,274
	-	86,207
	-	519,368
	114,719	355,610
	159,528	792,868
	19,982	620,972
	<b>1,453,178</b>	<b>16,694,821</b>
	162,474	2,773,824
	43,419	6,297,065
	-	3,043,600
	347,995	2,251,572
	12,525	12,525
	10,000	10,000
	566,593	566,593
	302,896	930,583
	<b>1,445,902</b>	<b>15,885,762</b>
	7,276	809,059
	151,371	1,303,939
	(60,226)	(1,303,939)
	<b>91,145</b>	<b>-</b>
	<b>98,421</b>	<b>809,059</b>
	6,087,244	20,911,017
<b>\$</b>	<b>6,185,665</b>	<b>\$ 21,720,076</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

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**Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ 809,059

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	632,019
Subtract: depreciation expense	(1,672,468)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: current principal debt payment	10,000
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: prior year deferred property taxes and special assessments	(409,048)
Add: current year deferred property taxes and special assessments	372,621

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in the accrual of compensated absences	(22,397)
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Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and employee benefits, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	55,966
Add: other revenue from governmental internal service funds	81,640
Add: local sources from governmental internal service funds	225,000
Add: gain on disposal of capital assets in governmental internal service funds	323,258
Add: net operating income from governmental activities accounted for in internal service funds	230,103

<b>Change in net assets of governmental activities</b>	<b><u>\$ 635,753</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 7,553,000	\$ 7,553,000	\$ 7,552,857	\$ (143)
Licenses and permits	191,850	211,850	207,619	(4,231)
Federal sources	32,000	32,000	67,730	35,730
State sources	1,232,500	1,412,500	1,410,184	(2,316)
Local sources	1,540,000	1,540,000	1,562,238	22,238
Charges for services	464,250	464,250	434,465	(29,785)
Fines and forfeits	82,000	85,500	86,207	707
Reimbursements	480,000	480,000	519,368	39,368
Interest income	130,000	170,000	162,631	(7,369)
Other revenue	313,200	313,200	334,447	21,247
<b>Total revenues</b>	<b><u>12,018,800</u></b>	<b><u>12,262,300</u></b>	<b><u>12,337,746</u></b>	<b><u>75,446</u></b>
<b>Expenditures</b>				
General government	2,445,850	2,612,500	2,611,350	(1,150)
Public safety	6,172,700	6,352,700	6,253,646	(99,054)
Public works	1,278,750	1,201,750	963,811	(237,939)
Recreation and culture	2,014,150	2,024,150	1,903,577	(120,573)
<b>Total expenditures</b>	<b><u>11,911,450</u></b>	<b><u>12,191,100</u></b>	<b><u>11,732,384</u></b>	<b><u>(458,716)</u></b>
Excess (deficiency) of expenditures over revenues	<u>107,350</u>	<u>71,200</u>	<u>605,362</u>	<u>534,162</u>
<b>Other financing sources (uses)</b>				
Transfers in	298,000	326,500	328,431	1,931
Transfers out	(1,158,400)	(1,251,500)	(972,237)	279,263
<b>Total other financing sources (uses)</b>	<b><u>(860,400)</u></b>	<b><u>(925,000)</u></b>	<b><u>(643,806)</u></b>	<b><u>281,194</u></b>
<b>Net change in fund balance</b>	<b><u>(753,050)</u></b>	<b><u>(853,800)</u></b>	<b><u>(38,444)</u></b>	<b><u>815,356</u></b>
Fund balance, beginning of year	<u>3,517,932</u>	<u>3,517,932</u>	<u>3,517,932</u>	<u>-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 2,764,882</u></b>	<b><u>\$ 2,664,132</u></b>	<b><u>\$ 3,479,488</u></b>	<b><u>\$ 815,356</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Major Streets Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>				
State sources	\$ 916,700	\$ 942,000	\$ 935,752	\$ (6,248)
Interest income	3,000	3,000	2,351	(649)
<b>Total revenues</b>	<b>919,700</b>	<b>945,000</b>	<b>938,103</b>	<b>(6,897)</b>
<b>Expenditures</b>				
Public works				
Personnel	395,450	398,750	406,331	7,581
Commodities	103,600	103,600	100,158	(3,442)
Contractual services	90,500	90,500	48,392	(42,108)
Other charges	422,500	514,500	507,467	(7,033)
<b>Total expenditures</b>	<b>1,012,050</b>	<b>1,107,350</b>	<b>1,062,348</b>	<b>(45,002)</b>
Excess (deficiency) of expenditures over revenues	(92,350)	(162,350)	(124,245)	38,105
<b>Other financing sources</b>				
Transfers in	-	70,000	70,000	-
<b>Net change in fund balance</b>	<b>(92,350)</b>	<b>(92,350)</b>	<b>(54,245)</b>	<b>38,105</b>
Fund balance, beginning of year	338,348	338,348	338,348	-
<b>Fund balance, end of year</b>	<b>\$ 245,998</b>	<b>\$ 245,998</b>	<b>\$ 284,103</b>	<b>\$ 38,105</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Local Streets Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>				
State sources	\$ 340,000	\$ 340,000	\$ 336,131	\$ 3,869
<b>Expenditures</b>				
Public works				
Personnel	480,000	480,000	455,062	(24,938)
Contractual services	60,000	60,000	30,945	(29,055)
Commodities	50,000	50,000	39,500	(10,500)
Other charges	495,000	495,000	491,934	(3,066)
<b>Total expenditures</b>	<b>1,085,000</b>	<b>1,085,000</b>	<b>1,017,441</b>	<b>(67,559)</b>
Excess (deficiency) of revenue over expenditures	(745,000)	(745,000)	(681,310)	63,690
<b>Other financing sources</b>				
Transfer in	745,000	745,000	681,310	(63,690)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying financial statements are an integral part of these financial statements.



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**

	<b>Enterprise Funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,478,793	\$ 618,744	\$ 287,926
Investments	49,969	400,145	-
Receivables			
Accounts	584,919	429,749	8,666
Taxes	1,004	433	-
Accrued interest	-	1,069	-
Due from other governmental units	-	-	5,914
Inventory	-	100,946	10,630
Prepaid cost and other assets	25,254	3,208	967
<b>Total current assets</b>	<b>2,139,939</b>	<b>1,554,294</b>	<b>314,103</b>
Noncurrent assets			
Restricted assets	216,300	280,859	-
Capital assets	25,920,543	6,459,121	10,645,982
<b>Total noncurrent assets</b>	<b>26,136,843</b>	<b>6,739,980</b>	<b>10,645,982</b>
<b>Total assets</b>	<b>28,276,782</b>	<b>8,294,274</b>	<b>10,960,085</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	406,657	61,727	41,397
Accrued and other liabilities	128,298	53,948	8,144
Due to other funds	102,230	26,120	-
Current portion of long-term debt	914,910	175,000	-
<b>Total current liabilities</b>	<b>1,552,095</b>	<b>316,795</b>	<b>49,541</b>
Noncurrent liabilities			
Advance from component unit	-	-	850,000
Advance from other funds	-	-	850,000
Long-term debt, net of current portion	18,139,188	1,500,000	-
Compensated absences	7,426	43,485	3,523
<b>Total liabilities</b>	<b>19,698,709</b>	<b>1,860,280</b>	<b>1,753,064</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	6,866,445	4,784,121	10,645,982
Restricted for			
Debt service	-	280,859	-
Capital projects	216,300	-	-
Unrestricted (deficit)	1,495,328	1,369,014	(1,438,961)
<b>Total net assets</b>	<b>\$ 8,578,073</b>	<b>\$ 6,433,994</b>	<b>\$ 9,207,021</b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile</b>		
<b>Parking</b>		<b>Internal</b>
<b>System</b>	<b>Total</b>	<b>Service Funds</b>
\$ 913,829	\$ 3,299,292	\$ 1,777,419
24,499	474,613	1,974,380
7,697	1,031,031	5,482
-	1,437	-
-	1,069	-
-	5,914	-
-	111,576	109,725
516	29,945	3,598
<b>946,541</b>	<b>4,954,877</b>	<b>3,870,604</b>
-	497,159	-
10,150,889	53,176,535	5,734,286
<b>10,150,889</b>	<b>53,673,694</b>	<b>5,734,286</b>
<b>11,097,430</b>	<b>58,628,571</b>	<b>9,604,890</b>
14,182	523,963	226,467
7,252	197,642	29,355
43,660	172,010	-
-	1,089,910	-
<b>65,094</b>	<b>1,983,525</b>	<b>255,822</b>
-	850,000	-
-	850,000	-
-	19,639,188	-
1,591	56,025	31,892
<b>66,685</b>	<b>23,378,738</b>	<b>287,714</b>
10,150,889	32,447,437	5,734,286
-	280,859	-
-	216,300	-
879,856	2,305,237	3,582,890
<b>\$ 11,030,745</b>	<b>\$ 35,249,833</b>	<b>\$ 9,317,176</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**

**Statement of Net Assets**

**Proprietary Funds**

**June 30, 2005**

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**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise  
Funds to Net Assets of Business-Type Activities on the Statement of Net  
Assets**

Net assets - enterprise funds	\$	35,249,833
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Amounts reported for business-type activities in the statement of net assets  
are different because

Internal service funds are used by management to charge the costs of  
certain equipment usage and employee benefits to individual proprietary funds. The assets  
and liabilities of the internal service funds are included in governmental and business-type  
activities in the statement of net assets.

Add - net assets of business-type activities accounted for in the internal service funds		<u>33,531</u>
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<b>Net assets of business-type activities</b>	<b>\$</b>	<b><u><u>35,283,364</u></u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	<b>Enterprise funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Operating revenues</b>			
Charges for services	\$ 4,579,747	\$ 2,161,920	\$ 469,286
Interdepartmental	2,200	-	-
Other revenue	199,442	377,918	10,672
<b>Total operating revenues</b>	<b>4,781,389</b>	<b>2,539,838</b>	<b>479,958</b>
<b>Operating expenses</b>			
Personnel	459,856	902,760	117,184
Commodities	24,341	121,792	10,770
Contractual services	2,355,737	294,659	144,599
Other charges	136,833	323,089	48,179
Benefit payments	-	-	-
Depreciation and amortization	399,817	241,938	128,905
<b>Total operating expenses</b>	<b>3,376,584</b>	<b>1,884,238</b>	<b>449,637</b>
Operating income (loss)	1,404,805	655,600	30,321
<b>Nonoperating revenues (expenses)</b>			
Other revenue	-	-	-
Net increase (decrease) in fair value of investments	-	(2,980)	-
Interest income	47,598	28,781	6,812
Interest expense and financial charges	(672,356)	(107,875)	(92,250)
Gain on sale of capital assets	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(624,758)</b>	<b>(82,074)</b>	<b>(85,438)</b>
<b>Income (loss) before contributions</b>	<b>780,047</b>	<b>573,526</b>	<b>(55,117)</b>
Capital contributions	-	-	-
Change in net assets	780,047	573,526	(55,117)
Net assets, beginning of year	7,798,026	5,860,468	9,262,138
<b>Net assets, end of year</b>	<b>\$ 8,578,073</b>	<b>\$ 6,433,994</b>	<b>\$ 9,207,021</b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile</b>		
<b>Parking</b>		<b>Internal</b>
<b>System</b>	<b>Total</b>	<b>Service Funds</b>
\$ 811,098	\$ 8,022,051	\$ -
-	2,200	2,522,041
74,076	662,108	-
<b>885,174</b>	<b>8,686,359</b>	<b>2,522,041</b>
93,854	1,573,654	664,761
13,291	170,194	490,821
296,599	3,091,594	61,719
205,366	713,467	231,904
-	-	55,494
231,581	1,002,241	784,438
<b>840,691</b>	<b>6,551,150</b>	<b>2,289,137</b>
44,483	2,135,209	232,904
-	-	81,640
-	(2,980)	-
18,742	101,933	55,966
-	(872,481)	-
-	-	323,258
<b>18,742</b>	<b>(773,528)</b>	<b>460,864</b>
<b>63,225</b>	<b>1,361,681</b>	<b>693,768</b>
-	-	225,000
63,225	1,361,681	918,768
10,967,520	33,888,152	8,398,408
<b>\$ 11,030,745</b>	<b>\$ 35,249,833</b>	<b>\$ 9,317,176</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

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**Reconciliation of the Statement of Revenues, Expenses and Changes  
in Net Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - all enterprise funds	\$ 1,361,681
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Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual funds. The net revenue (expense) attributable to enterprise funds is reported with business-type activities.

Add - net operating income from business-type activities in internal service funds	<u>2,801</u>
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<b>Change in net assets of business-type activities</b>	<b><u><u>\$ 1,364,482</u></u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	<b>Enterprise funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ -	\$ -	\$ -
Cash received from customers	4,667,373	2,440,144	473,224
Cash payments to suppliers for goods and services	(2,158,091)	(765,570)	(181,500)
Cash payments to employees for services	(471,434)	(913,521)	(115,681)
<b>Net cash provided by operating activities</b>	<b>2,037,848</b>	<b>761,053</b>	<b>176,043</b>
<b>Cash flows from non-capital financing activities</b>			
Advance to other funds	-	-	(800,000)
Due to other funds	10,882	6,152	-
Due from other governments	-	-	780,478
Other revenue	-	-	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>10,882</b>	<b>6,152</b>	<b>(19,522)</b>
<b>Cash flows from capital and related financing activities</b>			
Capital contribution	-	-	-
Principal payments	(900,785)	(150,000)	-
Interest payments	(672,356)	(107,875)	(92,250)
Purchases of capital assets	(1,535,082)	(580,816)	-
Proceeds from sale of capital assets	-	-	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(3,108,223)</b>	<b>(838,691)</b>	<b>(92,250)</b>
<b>Cash flows from investing activities</b>			
Interest received	47,598	25,801	6,812
Purchase of investments	-	-	-
Sale of investments	(422)	(6,013)	-
<b>Net cash provided by (used in) investing activities</b>	<b>47,176</b>	<b>19,788</b>	<b>6,812</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,012,317)</b>	<b>(51,698)</b>	<b>71,083</b>
Cash and cash equivalents, beginning of year	2,707,410	951,301	216,843
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,695,093</b>	<b>\$ 899,603</b>	<b>\$ 287,926</b>
<b>Statement of net assets classification of cash and cash equivalents</b>			
Cash and cash equivalents	\$ 1,478,793	\$ 618,744	\$ 287,926
Restricted assets	216,300	280,859	-
	<b>\$ 1,695,093</b>	<b>\$ 899,603</b>	<b>\$ 287,926</b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile</b>		
<b>Parking System</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ -	\$ -	\$ 2,520,537
878,156	8,458,897	-
(506,374)	(3,611,535)	(1,262,259)
(97,433)	(1,598,069)	(715,374)
<b>274,349</b>	<b>3,249,293</b>	<b>542,904</b>
9,795	(790,205)	-
-	17,034	-
-	780,478	-
-	-	81,640
<b>9,795</b>	<b>7,307</b>	<b>81,640</b>
-	-	225,000
-	(1,050,785)	-
-	(872,481)	-
(336,666)	(2,452,564)	(971,109)
-	-	635,969
<b>(336,666)</b>	<b>(4,375,830)</b>	<b>(110,140)</b>
18,742	98,953	55,966
(210)	(210)	(1,181,628)
-	(6,435)	-
<b>18,532</b>	<b>92,308</b>	<b>(1,125,662)</b>
<b>(33,990)</b>	<b>(1,026,922)</b>	<b>(611,258)</b>
947,819	4,823,373	2,388,677
<b>\$ 913,829</b>	<b>\$ 3,796,451</b>	<b>\$ 1,777,419</b>
\$ 913,829	\$ 3,299,292	\$ 1,777,419
-	497,159	-
<b>\$ 913,829</b>	<b>\$ 3,796,451</b>	<b>\$ 1,777,419</b>

Continued.....



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

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	<u>Wastewater</u>	<u>Water</u>	<u>Marina</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>			
Operating income	\$ 1,404,805	\$ 655,600	\$ 30,321
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	399,817	241,938	128,905
Changes in assets and liabilities			
Accounts receivable	(114,016)	(99,694)	(6,734)
Prepaid cost and other assets	2,530	(258)	376
Inventories	-	(4,816)	2,775
Accounts payable	356,290	(20,956)	18,897
Accrued and other liabilities	<u>(11,578)</u>	<u>(10,761)</u>	<u>1,503</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u><u>\$ 2,037,848</u></u></b>	<b><u><u>\$ 761,053</u></u></b>	<b><u><u>\$ 176,043</u></u></b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile Parking System</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 44,483	\$ 2,135,209	\$ 232,904
231,581	1,002,241	784,438
(7,018)	(227,462)	(1,504)
54	2,702	(208)
-	(2,041)	7,459
8,828	363,059	(485,066)
(3,579)	(24,415)	4,881
<b>\$ 274,349</b>	<b>\$ 3,249,293</b>	<b>\$ 542,904</b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**

	<b>ACT 345 Retirement Pension Trust Fund</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,869,068	\$ 121,001
Investments, at fair value		
U.S. Governmental obligations	1,460,023	-
U.S. Agencies	3,259,028	-
Common stock	10,538,065	-
Foreign bonds	317,401	-
Foreign stock	489,565	-
Mutual funds	3,281,961	-
Corporate bonds	1,432,922	-
Receivables		
Accounts	-	564
Taxes	-	399,091
Accrued interest	73,025	-
<b>Total assets</b>	<b>22,721,058</b>	<b>\$ 520,656</b>
<b>Liabilities</b>		
Accrued liabilities	-	89,896
Due to other governmental units	-	430,760
<b>Total liabilities</b>	<b>-</b>	<b>\$ 520,656</b>
<b>Net Assets</b>		
Held in trust for pension benefits and other purposes	<b>\$ 22,721,058</b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2005**

		<b>ACT 345 Retirement System</b>
<b>Additions</b>		
Contributions		
City contributions		\$ 615,269
Member contributions		92,637
		<u>707,906</u>
Investment earnings		
Interest income		465,498
Dividend income		387,407
Net appreciation in fair value of investments		664,523
Less investment advisor fees		(141,493)
		<u>1,658,921</u>
<b>Total additions</b>		<u><b>2,366,827</b></u>
<b>Deductions</b>		
Pension benefits paid		1,318,161
Health insurance premiums paid		303,802
Administrative expense		37,802
		<u>1,659,765</u>
<b>Total deductions</b>		<u><b>1,659,765</b></u>
<b>Net increase in plan assets attributal to pension plan</b>	<b>660,623</b>	
<b>Net decrease in plan assets attributal to health insurance</b>	<u><b>(236,547)</b></u>	<b>707,062</b>
Net assets held in trust, beginning of year		<u>22,296,982</u>
<b>Net assets held in trust, end of year, attributal to pension plan</b>	<b>21,526,820</b>	
<b>Net assets held in trust, end of year, attributal to health insurance</b>	<u><b>1,194,238</b></u>	<u><b>\$ 23,004,044</b></u>

The accompanying financial statements are an integral part of these financial statements.

# CITY OF TRAVERSE CITY, MICHIGAN

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### Notes to the Financial Statements

June 30, 2005

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# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The *City of Traverse City* (the "City") was incorporated in 1895. The City operates under a commission-manager form of government and provides the following services as authorized by its charter: General Government/administrative services, Public Safety, Highways and Streets, Parks and Recreation, Planning and Zoning and Public Improvements.

#### Discretely Presented Component Units

The City has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of the "reporting entity".

The following component units are included in the City's reporting entity.

Downtown Development Authority (the "DDA") (DDA, TIF2, TIF97)  
Traverse City Light and Power Department (the "Department")  
Traverse City Housing Commission (the "Commission")

These discretely presented component units are presented in the statement of net assets and statement of activities. They are legally separate, and while the City is not responsible for the operations of the entities, the City is financially accountable for them. In addition, the City appoints the DDA's Board of Trustees, the Department's Board of Directors and the Commission's Board of Commissioners. The nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the basic financial statements misleading or incomplete.

Complete financial statements of the individual component units can be obtained from the City Treasurer's Office at 400 Boardman Avenue, Traverse City, Michigan 49684, and from the entities themselves.

Other entities with which the City does not have such relationships are:

Bay Area Transportation Authority (BATA)  
Northwestern Regional Airport Commission  
Grand Traverse Commons Redevelopment Corporation  
Traverse Area District Library  
City of Traverse City and Garfield Township Recreational Authority

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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The boards of these entities are independent of the City and the City has no significant operational or financial relationship with these entities. Accordingly, the financial statements for these entities have been excluded from the accompanying financial statements.

### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Public Improvement Fund* accounts for the transfers from the General Fund for receipts and disbursements for miscellaneous equipment transactions, property development and construction projects.

The *Brown Bridge Trust Fund* accounts for the use of money derived from oil, gas or mineral exploration at the Brown Bridge property, which shall be endowed in a permanent trust. The income from the endowment is used to supplement City taxes as a credit against the General Fund levy.

The government reports the following major proprietary funds:

The *Wastewater Fund* accounts for the activities of the government's wastewater disposal and treatment system.



# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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The *Water Fund* accounts for the activities of the government's water distribution and treatment system.

The *Marina Fund* accounts for the activities of the government's marina operations.

The *Automobile Parking System* accounts for the activities of the parking system.

Additionally, the government reports the following fund types:

The *internal service funds* account for fleet and equipment management and employee fringe benefits provided to other departments or agencies of the government, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Public Safety employees Retirement System, which accumulates resources for pension and postretirement health benefits payments to qualified public safety employees.

The *agency funds* account for assets held for other governments in an agency capacity, specifically tax collections, payroll fringes, and a senior center.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and wastewater function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater, Water, Marina, and Automobile parking System enterprise funds and the discretely presented component units Light and Power and Housing Commission enterprise funds and the government's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and net assets or equity**

#### **1. *Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### **2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **3. *Restricted assets***

Certain proceeds of the Wastewater and Water revenue bonds and the discrete component unit Light and Power enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements and customer deposits payable.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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### 4. *Inventory*

Inventory held by the general, enterprise and internal service funds are valued at cost on the first-in, first-out basis, except for the Water fund, which is valued at average cost. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

### 5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year. Infrastructure assets have been reported for the past 3 years.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Public domain infrastructure	50
System infrastructure	50
Vehicles	7-25
Equipment	5-10

### 6. *Compensated absences*

City employees are granted vacation hours on their anniversary date of hire. The number of hours is dependent upon years of service. Unused vacation pay is accrued at year-end.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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Until 1990, sick leave hours were credited to each employee as earned during a calendar year. Bargaining and non-bargaining employees are compensated for one-half of their unused accumulated sick leave hours up to a maximum of 480 hours (or 1,080 hours for Light and Power Department and Fire Department employees) upon retirement.

Since 1990, short-term leave pay has replaced sick leave pay for all employees. Each employee is entitled to 56 hours of short-term leave pay per year on December 1. Unused short-term leave accumulated at November 30 is paid out on December 1. The City accrues unused short-term leave at its fiscal year-end.

All vacation and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

### **7. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not earlier than the third Monday in May and not later than the first Monday in June of each year the City Commission shall, by resolution, adopt the budget for the next fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however any supplemental appropriations that amend the total expenditures of any fund require City Commission resolution.

#### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2005, the FETN and Senior Citizens Special Revenue Funds exceed appropriations by \$120 and \$15,366, respectively. These over expenditures were funded by greater than anticipated revenues in that fund and the use of prior year fund balance.

#### **C. Deficit fund equity**

##### **Component unit**

For the year ended June 30, 2005, the TIF2 Special Revenue Fund of the Downtown Development Authority component unit ended with a deficit unreserved fund balance of \$66,506. Significant expenditures were incurred which were paid for in part via a long-term advance from the City's Industrial Park Fund. The deficit fund balance will be eliminated as future tax revenues are collected by April 2006. The City is expected to submit a deficit elimination plan with the State of Michigan.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commission has designated five banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset value of \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets (excluding the Housing Commission) are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 9,544,478	\$ 3,299,292	\$ 1,990,069	\$ 14,833,839	\$ 5,775,845
Investments	14,037,629	474,613	20,778,965	35,291,207	11,911,707
Restricted assets	-	497,159	-	497,159	323,096
<b>Total</b>	<b><u>\$ 23,582,107</u></b>	<b><u>\$ 4,271,064</u></b>	<b><u>\$ 22,769,034</u></b>	<b><u>\$ 50,622,205</u></b>	<b><u>\$ 18,010,648</u></b>

Cash and cash equivalents reported above include \$5,850 of cash on hand and \$218,820 of cash held by the County that are not considered deposits or investments for footnote purposes.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

The breakdown between deposits and investments is as follows:

Bank deposits (checking, savings accounts and certificates of deposit)	\$ 16,796,020
City and component unit	31,057,866
Act 345 retirement	<u>20,778,967</u>
<b>Total</b>	<b><u>\$ 68,632,853</u></b>

### Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	02/20/2009	\$ 199,580	AAA
Federal home loan bond	05/21/2007	246,173	AAA
Federal home loan bond	12/29/2006	293,814	AAA
Federal home loan bond	05/12/2009	199,188	AAA
Federal home loan bond	08/08/2007	299,718	AAA
Federal home loan bond	11/17/2006	298,314	AAA
US treasury note	11/15/2007	280,859	AAA
US treasury note	04/15/2009	24,499	AAA
US treasury note	06/30/2007	49,969	AAA
US treasury note	04/15/2009	88,196	AAA
US treasury note	06/30/2007	116,475	AAA
US treasury note	05/15/2009	754,335	AAA
US treasury note	08/15/2008	691,278	AAA
US treasury note	09/15/2008	491,525	AAA
US treasury note	11/15/2006	493,420	AAA
US treasury note	09/15/2008	98,305	AAA
US treasury note	05/31/2006	990,740	AAA
US treasury note	05/15/2007	990,550	AAA
US treasury note	06/15/2009	1,010,780	AAA
US treasury note	05/15/2008	1,002,190	AAA
US treasury note	06/30/2006	992,300	AAA
US treasury note	08/15/2006	49,348	AAA
US treasury note	12/31/2005	992,460	AAA
US treasury note	05/31/2007	996,950	AAA
US treasury note	01/31/2007	992,110	AAA
US treasury note	12/15/2008	494,980	AAA
US treasury note	04/15/2009	979,960	AAA
US treasury note	08/15/2013	1,025,000	AAA
US treasury note	11/15/2013	1,024,410	AAA

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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US treasury note	02/15/2014	251,505	AAA
US treasury note	08/15/2008	158,006	AAA
US treasury note	12/31/2006	99,082	AAA
US treasury note	08/15/2008	88,879	AAA
US treasury note	06/30/2007	999,380	AAA
US treasury note	04/15/2009	97,996	AAA
US treasury note	05/15/2007	1,013,320	AAA
US treasury note	05/31/2006	743,055	AAA
US treasury note	05/15/2008	450,985	AAA
US treasury note	05/15/2009	1,005,780	AAA
US treasury note	05/15/2014	318,327	AAA
US treasury note	04/15/2009	68,597	AAA
Investment pool	N/A	786,395	AA
Investment sweep	N/A	<u>8,809,133</u>	N/A
<b>Total</b>		<b><u>\$ 31,057,866</u></b>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$14,525,594 of the City's bank balance of \$15,025,594 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$31,057,866 of investments, the City has a custodial credit risk exposure of \$30,761,822 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.



# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the City exceed 5 percent of the City's investments.

### Act 345 Retirement Amounts

#### Deposits and Investments – Pension Trust Fund

The City maintains a pension trust fund (the "Act 345") where deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the pension trust funds' deposits and investments are presented separately.

*Deposits* – The System does maintain two checking accounts in the amount of \$1,082,673. None of these deposits are insured. Remaining amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

*Investments* – The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314, of 1965, as amended, authorizes the pension trusts to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the pension trust funds' assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The pension trust funds' investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2005:

Investments at fair value, as determined	
by quoted market price	
U.S. treasuries	\$ 1,460,024
U.S. agencies	3,259,028
Domestic corporate securities	
Corporate bonds	1,432,922
Domestic equities	
Mutual fund	3,281,961
Corporate stocks	10,538,065
International bonds	317,402
International equities	<u>489,565</u>
<b>Total investments</b>	<b><u>\$ 20,778,967</u></b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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In addition to the above, the System has short-term investments of \$786,395 as of June 30, 2005 held entirely in money market funds.

*Credit Risk.* The pension trust funds' investment policy provides that its investments in fixed income securities should have an investment grade rating by two nationally recognized statistical rating organizations. As of June 30, 2005, the System's investments in bonds were rated by Standard Poor's as follows:

AAA	\$ 3,322,675
AA-	38,518
A+	283,367
A	172,961
A-	73,734
BBB+	117,621
BBB	94,174
BBB-	139,764
Not rated	<u>766,538</u>
	<u>\$ 5,009,352</u>

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The pension trust funds' investment policy requires that investment securities be held in trust by a third-party institution in the funds' name. As such, although uninsured and unregistered, the pension trust funds' investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the pension trust funds' name.

Short-term investments in money market funds are not subject to custodial credit risk.

*Concentration of Credit Risk.* The pension trust funds' investment policies require that the securities of any one company or governmental agency should not exceed 5% of the total investment market value of each individual pension trust fund. At June 30, 2005, there were no concentrations in securities of any one issuer greater than 5% of investment fair market value.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

*Interest Rate Risk.* As of June 30, 2005, maturities of the pension trust funds' debt securities were as follows:

	<b>Investment Maturities (fair value by years)</b>				
	<b><u>Fair Value</u></b>	<b><u>Less Than 1</u></b>	<b><u>1-5</u></b>	<b><u>6-10</u></b>	<b><u>More Than 10</u></b>
U.S. treasuries	\$1,460,024	\$ 64,871	\$ 917,845	\$ 74,276	\$ 403,032
U.S. agencies	3,259,028	-	465,842	36,189	2,756,998
Corporate bonds	1,432,922	10,028	471,562	487,178	464,154
International bonds	<u>317,402</u>	<u>-</u>	<u>28,973</u>	<u>58,703</u>	<u>229,725</u>
<b>Total debt securities</b>	<b><u>\$6,469,376</u></b>	<b><u>\$ 74,899</u></b>	<b><u>\$1,884,222</u></b>	<b><u>\$ 656,346</u></b>	<b><u>\$3,853,909</u></b>

The pension trust funds investment policies do not address interest rate risk.

*Foreign Currency Risk.* The system's exposure to foreign currency risk is as follows:

<b><u>Investment</u></b>	<b><u>Currency</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Deutsche Telekom	Mark	6/15/2010	\$ 23,973	A-
France Telecom	Franc	3/11/2011	23,209	A-
Nexen Inc	Canadian dollar	3/10/2015	20,266	BBB-
Telecom Italia	Lira	11/15/2013	15,228	BBB+
Israel St Bond	New shekel	04/26/2024	<u>229,726</u>	Not rated
			<b><u>\$ 317,402</u></b>	

The system's investment policy permits it to invest up to 5% of total investments in foreign currency denominated investments. The system's current position is 1.6%.

### **Housing Commission** **(Not included in above Totals)**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent accounts.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured, registered or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage. Category 2 includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name. Category 3 includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and the carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2005 balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>Total</u>	
Huntington Bank	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
National City Bank	200,000	76,687	276,687	216,870
Bank One	31,977	-	31,977	31,977
Northwestern Savings Bank	41,242	-	41,242	41,242
Members Credit Union	<u>6,686</u>	<u>-</u>	<u>6,686</u>	<u>6,686</u>
Total deposits	<u>\$ 379,905</u>	<u>\$ 76,687</u>	<u>\$ 456,592</u>	
Unclassified as to risk				
Petty cash				<u>200</u>
<b>Total Cash</b>				<b><u>\$ 396,975</u></b>

### Reconciliation to Cash on Statement of Net Assets

Cash and cash equivalents	\$ 217,407
Investments – unrestricted	147,591
Restricted cash	<u>31,977</u>
<b>Total Cash</b>	<b><u>\$ 396,975</u></b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Restricted cash is comprised of escrow balances for the Family Self Sufficiency Program in the Low Rent and Housing Choice Vouchers Program.

### B. Receivables

Receivables in the governmental activities consist of 43 percent due from other governments, 22 percent special assessments receivable, 8 percent taxes receivable, 4 percent interest receivable and 23 percent other receivables. Receivables in the business-type activities consist of 1 percent due from other governments, 97 percent due from customers and 2 percent of other receivables. Receivables in the component units consist of 42 percent due from other governments, 55 percent due from customers and 3 percent other receivables.

Accounts receivable in the Wastewater and Water enterprise Fund are net of allowances in the amounts of \$3,005 and \$952, respectively. Accounts receivable in the Light and Power and Housing Commission discrete component units are net of allowances in the amount of \$54,532 and \$1,141, respectively.

Special assessments receivable in the amount of approximately \$210,000 will not be collected within one year.

### C. Capital assets

Capital assets activity for the year ended June 30, 2005 was as follows:

#### Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated –				
Land	\$ 11,161,813	\$ 22,000	\$ -	\$ 11,183,813
Land improvements	<u>457,531</u>	<u>19,002</u>	<u>-</u>	<u>476,533</u>
Total capital assets not being depreciated	<u>11,619,344</u>	<u>41,002</u>	<u>-</u>	<u>11,660,346</u>
<b>Capital assets being depreciated</b>				
Land improvements	1,243,440	108,625	-	1,352,065
Infrastructure	36,687,703	234,275	-	36,921,978
Buildings	14,985,010	154,506	-	15,139,516
Equipment	<u>10,751,199</u>	<u>1,064,720</u>	<u>1,087,328</u>	<u>10,728,591</u>
Total capital assets being depreciated	<u>63,667,352</u>	<u>1,562,126</u>	<u>1,087,328</u>	<u>64,142,150</u>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Land improvements	179,973	42,178	-	222,151
Infrastructure	28,554,524	1,107,489	-	29,662,013
Buildings	4,720,614	536,947	-	5,257,561
Equipment	<u>5,944,547</u>	<u>770,292</u>	<u>774,618</u>	<u>5,940,221</u>
Total accumulated depreciation	<u>39,399,658</u>	<u>2,456,906</u>	<u>774,618</u>	<u>41,081,946</u>
Total capital assets being depreciated, net	<u>24,267,694</u>	<u>(894,780)</u>	<u>312,710</u>	<u>23,060,204</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 35,887,038</u></b>	<b><u>\$ (853,778)</u></b>	<b><u>\$ 312,710</u></b>	<b><u>\$ 34,720,550</u></b>
<b>Business-type activities</b>				
Capital assets not being Depreciated				
Land	\$ 965,043	\$ -	\$ -	\$ 965,043
Land improvements	8,376,302	-	-	8,376,302
Construction in progress	<u>17,267,832</u>	<u>-</u>	<u>17,267,032</u>	<u>800</u>
Total capital assets not being depreciated	<u>26,609,177</u>	<u>-</u>	<u>17,267,032</u>	<u>9,342,145</u>
Capital assets being depreciated				
Buildings and improvements	14,810,165	18,761,844	-	33,572,009
Other improvements	11,747,009	349,356	-	12,096,365
Machinery and equipment	<u>9,274,848</u>	<u>605,933</u>	<u>-</u>	<u>9,880,781</u>
Total capital assets being depreciated	<u>35,832,022</u>	<u>19,717,133</u>	<u>-</u>	<u>55,549,155</u>
Less accumulated depreciation for				
Buildings and improvements	6,170,022	509,323	-	6,679,345
Other improvements	843,315	343,246	-	1,186,561
Machinery and equipment	<u>3,701,652</u>	<u>147,207</u>	<u>-</u>	<u>3,848,859</u>
Total accumulated depreciation	<u>10,714,989</u>	<u>999,776</u>	<u>-</u>	<u>11,714,765</u>
Total capital assets being depreciated, net	<u>25,117,033</u>	<u>18,717,357</u>	<u>-</u>	<u>43,834,390</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 51,726,210</u></b>	<b><u>\$18,717,357</u></b>	<b><u>\$17,267,032</u></b>	<b><u>\$ 53,176,535</u></b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Light and Power</b>				
<b>Component unit –</b>				
Capital assets not being depreciated				
Land	\$ 843,173	\$ -	\$ -	\$ 843,173
Construction in progress	<u>1,579,283</u>	<u>2,180,745</u>	<u>-</u>	<u>3,760,028</u>
 Total capital assets not being depreciated	 <u>2,422,456</u>	 <u>2,180,745</u>	 <u>-</u>	 <u>4,603,201</u>
 Capital assets being depreciated				
Buildings and improvements	6,267,528	23,516	2,600,492	3,690,552
Equipment and distribution system	<u>48,003,748</u>	<u>1,548,037</u>	<u>7,537,288</u>	<u>42,014,497</u>
 Total capital assets being depreciated	 <u>54,271,276</u>	 <u>1,571,553</u>	 <u>10,137,780</u>	 <u>45,705,049</u>
 Less accumulated depreciation for				
Buildings and improvements	2,265,953	127,031	2,114,818	278,166
Equipment and distribution system	<u>20,639,019</u>	<u>1,269,829</u>	<u>6,456,329</u>	<u>5,452,519</u>
 Total accumulated depreciation	 <u>22,904,972</u>	 <u>1,396,860</u>	 <u>8,571,147</u>	 <u>15,730,685</u>
 Total capital assets being depreciated, net	 <u>31,366,304</u>	 <u>174,693</u>	 <u>1,566,633</u>	 <u>29,974,364</u>
 <b>Light and Power</b>				
<b>Component Unit</b>				
Capital assets, net	<u><b>\$ 33,788,760</b></u>	<u><b>\$ 2,355,438</b></u>	<u><b>\$ 1,566,633</b></u>	<u><b>\$ 34,577,565</b></u>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Housing Commission</b>				
Capital assets not being depreciated				
Land	\$ 297,665	\$ -	\$ -	\$ 297,665
Capital assets being depreciated				
Buildings	5,017,885	52,726	-	5,070,611
Machinery and equipment	403,430	33,964	-	437,394
Site improvements	191,729	28,633	-	220,362
Total capital assets being depreciated	5,613,044	115,323	-	5,728,367
Less accumulated depreciation	3,479,983	205,004	-	3,684,987
Total capital assets being depreciated, net	2,133,061	(89,681)	-	2,043,380
<b>Housing Commission Component Unit</b>				
Capital assets, net	<u>\$ 2,430,726</u>	<u>\$ (89,681)</u>	<u>\$ -</u>	<u>\$ 2,341,045</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 62,582
Public safety	83,696
Public works, including depreciation of general infrastructure assets	1,108,859
Parks and recreation	417,331
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	784,438
<b>Total depreciation expense – governmental activities</b>	<u><b>\$2,456,906</b></u>
<b>Business-type activities</b>	
Wastewater	\$ 397,352
Water	241,938
Marina	128,905
Auto parking	231,581
<b>Total depreciation expense – business-type activities</b>	<u><b>\$ 999,776</b></u>



# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

### Component unit activities

Light and power	\$1,396,860
Housing Commission	<u>205,004</u>

<b>Total depreciation expense - component unit activities</b>	<b><u>\$1,601,864</u></b>
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### D. Accounts payable and accrued expenses

Accounts payable and accrued expenses in the governmental activities consist of 42 percent vendor payables, 34 percent accrued salaries, 12 percent accrued interest, and 12 percent customer deposits. Business-type activities accounts payable and accrued expenses consist of 72 percent vendor payables, 9 percent accrued salaries, 18 percent accrued interest and 1 percent customer deposits. Component unit accounts payable and accrued expenses consist of 55 percent vendor payables, 5 percent accrued payroll, 5 percent customer deposits, and 35 percent other liabilities.

### E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows:

	<b>Due from other funds</b>		
	General Fund	Non-Major Governmental Funds	Total
<b><u>Due to other funds</u></b>			
Local Streets Fund	\$ 66,404	\$ -	\$ 66,404
Brown Bridge Fund	108,151	-	108,151
Wastewater Fund	102,230	-	102,230
Water Fund	26,120	-	26,120
Autoparking Fund	43,660	-	43,660
Non-Major Governmental Funds	<u>65,726</u>	<u>3,271</u>	<u>68,997</u>
Total	<u>\$ 412,291</u>	<u>\$ 3,271</u>	<u>\$ 415,562</u>

	<b><u>Advance to other funds</u></b>
	Non-Major Governmental Funds
<b><u>Advance from other funds</u></b>	
General Fund	\$ 72,000
Marina Fund	850,000
Non-Major Governmental Funds	<u>36,000</u>
Total	<u>\$ 958,000</u>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

	<b>Due from component unit</b>		
	General Fund	Non-Major Governmental	Total
		Funds	
<b><u>Due to primary government</u></b>			
Downtown Development Authority	\$ -	\$ 226,675	\$ 226,675
Light and Power	198,372	-	198,372
Housing Commission	21,583	-	21,583
<b>Total</b>	<b>\$ 219,955</b>	<b>\$ 226,675</b>	<b>\$ 446,630</b>

	<b>Advances from primary government</b>		
	Marina Fund	Non-Major Governmental	Total
		Funds	
<b><u>Advances to component unit</u></b>			
Light and Power	\$ 850,000	\$ 101,907	\$ 951,907

Interfund receivables and payables are established to: (1) cover cash deficits, (2) to record a receivable for the year end transfer of interest revenue to the general fund, (3) to finance projects, and (4) to record administration fees owed to the general fund.

<b><u>Transfer In</u></b>	<b>Transfer Out</b>			
	General Fund	Brown Bridge Trust	Non-Major Governmentals	Total
		Fund	Fund	
General Fund	\$ -	\$ 271,476	\$ 56,955	\$ 328,431
Major Streets Fund	70,000	-	-	70,000
Local Streets Fund	681,310	-	-	681,310
Public Improvement Fund	72,827	-	-	72,827
Non-Major Governmental Funds	148,100	-	3,271	151,371
<b>Total</b>	<b>\$ 972,237</b>	<b>\$ 271,476</b>	<b>\$ 60,226</b>	<b>\$ 1,303,939</b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Interfund transfers are for: (1) to transfer interest revenue to the general fund and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

The following is a summary of bond, note and contract debt transactions of the City for the year ended June 30, 2005:

	Primary Government				
	Governmental Activities General Obligation Bonds	Business- Type Activities Lease Payable	Business- Type Revenue Bonds	Component Units	Total Reporting Entity
Long-Term Debt at July 1, 2004	\$ 10,960,000	\$ 19,954,883	\$1,825,000	\$ 605,000	\$ 33,344,883
Reductions	<u>(10,000)</u>	<u>(900,785)</u>	<u>(150,000)</u>	<u>(295,000)</u>	<u>(1,355,785)</u>
<b>Long-Term Debt at June 30, 2005</b>	<b><u>\$ 10,950,000</u></b>	<b><u>\$ 19,054,098</u></b>	<b><u>\$1,675,000</u></b>	<b><u>\$ 310,000</u></b>	<b><u>\$ 31,989,098</u></b>
<b>Due Within One Year</b>	<b><u>\$ 10,000</u></b>	<b><u>\$ 914,910</u></b>	<b><u>\$ 175,000</u></b>	<b><u>\$ 310,000</u></b>	<b><u>\$ 1,409,910</u></b>

Compensated absences reported in the primary governmental type activities of \$644,909 decreased by \$22,397 for the year ended June 30, 2005; current portion is \$10,328. Compensated absences reported in the business-type activities of \$56,025 decreased by \$21,766 for the year ended June 30, 2005. Compensated absences reported in the component unit activities of \$370,765 decreased by \$2,577 for the year ended June 30, 2005. No current portion amount is due in the business-type and component unit activities.

For the governmental activities, compensated absences are generally liquidated by the general fund.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Long-term debt at June 30, 2005 is comprised of the following individual issues:

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Primary Government			
General Long-Term Debt			
General obligation Downtown Development Series 2002A – Parking Deck	2028	4.65-5.15	\$ 9,515,000
General obligation Downtown Development Series 2002 B – Parking Deck	2017	4.50-6.50	1,435,000
Enterprise Funds			
1992 Water Revenue Bonds	2013	5.00-8.00	1,675,000
1995 Wastewater Treatment Capital Lease Payable	2015	4.15-5.70	1,686,064
1998 Wastewater Disposal Capital Lease Payable	2013	4.00-4.50	601,598
2002 Wastewater Treatment Capital Lease Payable	2022	2.75-5.00	<u>16,766,436</u>
Total Primary Government			<u>31,679,098</u>
Component Units			
Light and Power Department			
1993 Electric Utility Revenue Refunding Bonds	2005		<u>310,000</u>
<b>Total Reporting Entity</b>			<b><u>\$ 31,989,098</u></b>

The City has created a statutory first lien on the net revenues of the Light and Power Department Component Unit and Water Fund to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that bond and interest redemption funds be maintained with a minimum balance amounting to the highest annual principal and interest payments due for each issue plus amounts necessary to fund current principal and interest payments.

The Wastewater Disposal System Bond Issues, which include the 1995 Waste Water Treatment, 1998 Wastewater Disposal, and 2002 Wastewater Treatment, were issued through Grand Traverse County (the "County"). The City records these bonds as a capital lease payable in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement 10, as amended.

In August 1993, the City issued \$2,420,000 of Electric Utility System Revenue Refunding Bonds, Series 1993. The proceeds of the Series 1993 bonds were used to call \$2,400,000 of the Series 1986 bonds payable in years 2000 through 2006, and to pay bond issuance costs.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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As a result of the bond refunding, a deferred charge was recorded, which primarily is the excess of assets, consisting of net bond proceeds of the Series 1993 refunding bonds and additional cash transferred by the City into the escrow fund, over the amount of the Series 1986 bonds which were defeased. The deferred charge, with a balance of \$34,036 at June 30, 2005, is being amortized over the life of the Series 1993 bonds.

In 1986, the City defeased (refinanced) Series 1984 revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At June 30, 2005, \$2,500,000 of the Series 1984 bonds are considered defeased, and the amount of defeased debt not yet paid is \$625,000.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

Fiscal Year	Governmental Activities General Obligation Bonds		Business-Type Capital Lease Payable		Business-Type Revenue Bond		Component Unit Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 10,000	\$ 565,630	\$ 914,910	\$ 790,452	\$ 175,000	\$ 100,500	\$ 310,000	\$ 7,750
2007	170,000	565,148	928,456	765,482	175,000	90,000	-	-
2008	170,000	556,268	959,212	737,807	200,000	79,500	-	-
2009	170,000	547,128	976,642	706,732	200,000	67,500	-	-
2010	170,000	537,613	1,039,132	673,060	225,000	55,500	-	-
2011-15	1,270,000	2,522,998	5,811,206	2,730,580	700,000	85,500	-	-
2016-20	2,495,000	2,064,488	5,736,639	1,504,466	-	-	-	-
2021-25	3,945,000	1,280,952	2,687,901	201,827	-	-	-	-
2026-28	2,550,000	262,225	-	-	-	-	-	-
	<u>\$ 10,950,000</u>	<u>\$ 8,902,450</u>	<u>\$ 19,054,098</u>	<u>\$ 8,110,406</u>	<u>\$ 1,675,000</u>	<u>\$ 478,500</u>	<u>\$ 310,000</u>	<u>\$ 7,750</u>

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **G. Segment information - enterprise funds**

The City issued revenue bonds to finance certain improvements to its water supply system and the discretely presented component unit, Light and Power, issued revenue bonds to finance certain improvements to its electrical supply system. Because the Water Fund, an individual fund that accounts entirely for the government's water supply system, and the Light and Power fund, a component unit that accounts entirely for the government's electrical supply system are segments and are reported as a major fund in the fund financial statements and on the statement of net assets and statement of activities, segment disclosures herein are not required.

### **H. Commitments**

#### **Construction**

During 2005, the City entered into the following contracts:

Comstock Construction Company for improvements in the amount of \$1,127,348. No project costs were expended through June 30, 2005. The project is expected to be completed during fiscal 2006.

Waukesha Electric Systems for the installation of a power transformer in the amount of \$353,900. No project costs were expended through June 30, 2005. The project is expected to be completed during fiscal 2006.

Hydaker-Wheatlake Company for the installation of a substation in the amount of \$891,222. Project costs through June 30, 2005 were \$563,320. Total remaining estimated cost is \$327,902. The project is expected to be completed during fiscal 2006.

#### **Vehicles**

The City leases six vehicles under operating agreements which require total monthly rental payments of \$2,394. Three of the leases expire in June 2006, two of the leases expire June 2007 and the remaining lease expire in September 2006. Total rent for the year ended June 30, 2005 amounted to \$19,452. Future minimum lease payments required under the operating leases are \$28,728 and \$10,773 for the years ended June 30, 2006 and 2007, respectively.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Property**

During fiscal 2004, The City entered into an agreement to lease various parcels of property that requires annual rental payments of \$1. Under the lease agreement, the City must maintain the property, carry adequate insurance and pay all assessments and property taxes. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contribution revenue and lease expense. This lease expires July 2023.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2005, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### **B. Joint agreements**

Beginning June 1, 1978, the City entered into an agreement with the County of Grand Traverse for the joint ownership and operation of the Governmental Center. Under the terms of the agreement, the City owns 26.39% of the property and the County owns the remaining 73.61%. The City's share of the original building cost was \$935,000.

Under the terms of a separate agreement, the City reimburses the County of Grand Traverse for their pro rata share of operation and maintenance costs. The City's share of these costs for the year ended June 30, 2005 amounted to \$106,769 and is included in General Fund expenditures.

### **C. Property taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County.



# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the City for the 2004 levy were assessed and equalized at \$590,223,318, representing 50 percent of estimated current market value. The government's general operating tax rate for fiscal year 2004-05 was 13.23 mills.

Property taxes for the DDA are derived from real and personal property in the Downtown Development Authority and for the 2004 levy were assessed and equalized at \$36,236,219, representing 50 percent of estimated current market value. The Downtown Development general operating tax rate for fiscal year 2004-05 was 1.817 mills. Property taxes are also derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Traverse City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

### **D. Defined benefit pension plans**

The City has two retirement plans, one covering police and fire department personnel and the other covering all other employees of the City, and the Light and Power Component Unit employees.

#### **Police and Fire Department Employees' Retirement Fund (Act 345)**

##### **Basis of Accounting**

The Police and Fire Retirement System Financial Statements are included as a pension trust fund of the City of Traverse City and are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the plan. Administrative costs are financed through investment earnings. The Plan does not issue a stand-alone financial report.

##### **Method Used To Value Investments**

Investments are reported at fair value. Short-term investments are valued at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### **Description of the Plan**

The City contributes to a single employer defined benefit retirement plan, the Police and Fire Retirement System, administered by the City and covering certain police and fire department personnel established under Michigan Act No. 345 of the Public Acts of 1937, as amended. The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. At June 30, 2004, the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	56
Active plan members	<u>54</u>
<b>Total</b>	<b><u>110</u></b>

### **Contributions**

The City's obligation to contribute, benefit provisions and all other requirements of the system are established and amended by Michigan statute (P.A. 345). Employees of the Police and Fire Retirement System are not required to contribute to the system. All full service police and fire department employees are eligible to participate in the Police and Fire Retirement System. For the years ended June 30, 2003, 2004 and 2005, the City contributed 100% of the annual pension costs, which was also the required contribution, in the amounts of \$342,511, \$396,681, and \$615,269 respectively. There were no net pension obligations at the end of these years. At year end June 30, 2005, the funded ratio (actuarial value of assets as a percent of actuarial accrued liability) was 97%. The amount contributed for the plan year was \$615,269, which is equal to the total contribution to the plan noted above.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### Actuarial Methods and Assumptions

Valuation date	June 30, 2004
Actuarial cost method	Entry-age
Amortization method	Level percent of payroll
Remaining amortization period	20 years open
Asset valuation method	4 years smoothed market
Actuarial Assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5-7.5%
*Includes inflation at	3.75%
Cost of living adjustments:	2.5% of original pension for twenty years, payable to the police captains unit, pre- July 1, 1990 retirees, Police Sergeants (effective 8-1-98) and Police Patrol (effective 1-1-99) and Firefighters Unit (effective 7-1-00)

Additional required supplementary information regarding the police and fire pension plan is reported in the supplemental material portion of the financial statements.

### **Municipal Employees Retirement System (MERS)**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate ranges from 15.16% to 20.40% of annual covered payroll depending on the class of employee. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended June 30, 2005 the City's annual pension cost of \$1,013,415 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

### Three-year Trend Information

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/03	\$ 788,911	100%	\$ -
6/30/04	946,826	100%	-
6/30/05	1,013,415	100%	-

### Schedule of Funding Progress

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) Entry Age (b)</u></b>	<b><u>Unfunded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u></b>
12/31/02	\$ 31,188,955	\$ 37,247,805	\$ 6,058,850	84%	\$ 6,388,977	95%
12/31/03	32,827,731	40,174,115	7,346,384	82%	6,905,057	106%
12/31/04	34,215,650	44,008,390	9,792,740	78%	7,656,396	128%

### E. Post-employment health benefits

In addition to the pension benefits described above, the City provides post retirement health insurance premiums and payments in accordance with their personnel policies and union agreements. Following describes each employee group and the post retirement health benefits they receive.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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City non-union employees are eligible for post retirement health benefits at the time of retirement. The benefit includes health insurance premiums paid for three years for only the retiree. Teamsters municipal, clerical, and technical employees are eligible for post retirement health benefits at the time of retirement if they have ten years of services, qualified for a pension under MERS and are collecting a MERS pension. The benefit includes premium payment of \$225 per month. Police sergeants, captains, and officers are eligible for post retirement benefits at the time of retirement if they have ten years of service with the City, qualify for a pension under ACT 345, and are collecting an ACT 345 pension. The benefit includes premium payments for the retiree and spouse at a base premium rate as of July 1, 1991 compounded five percent annually. Firefighters are eligible for post retirement health benefits at the time they retire and have reached age fifty. The benefit includes for those who retire after July 1, 1990 \$210.90 per month for single coverage, \$442.90 per month for double person coverage, \$495.61 per month for family coverage. For those employees who retired previous to July 1, 1994 they shall continue to receive the benefits as described in the applicable collective bargaining agreement in effect on the date of their retirement. The Traverse City Light and Power administrative employees and utility workers are eligible for post retirement benefits at time of retirement. The benefit includes payment of the retiree's premium until they reach the age of Medicare eligibility and at that time premium for complementary coverage will be paid. The City paid approximately \$480,000 in health insurance premiums for 86 participants.

### **F. Entitlement commitment**

The Traverse City Light and Power Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant, and an 18.61% undivided interest in the Detroit Edison Company Belle River project.

In 1983, Traverse City Light and Power Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, Traverse City Light and Power Department will purchase 26.35% of the energy generated by MPPA's share of the Campbell 3 plant, 4.53% of the energy generated by MPPA's share of the Belle River plant, and 75.9% of the energy generated by the Combustion Turbine plant.

In 2002, Traverse City Light and Power Department entered into an agreement with MPPA to purchase 75.9% of the energy generated by MPPA's Kalkaska Combustion Turbine Plant.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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For the year ended June 30, 2005, Traverse City Light and Power Department recognized expenses totaling \$14,318,421 to purchase power under the terms of these contracts. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

Under the terms of the contract, Traverse City Light and Power Department must make annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased).

The estimated annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

<b><u>Year Ended December 31</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$ 2,002,074	\$ 2,161,228	\$ 4,163,302
2007	2,100,144	2,064,643	4,164,787
2008	2,203,788	1,963,899	4,167,687
2009	2,313,742	1,851,640	4,165,382
2010	2,249,546	1,734,726	3,984,272
2011-2015	11,346,176	6,997,213	18,343,389
2016-2020	9,197,513	4,225,540	13,423,053
2021-2025	7,521,690	2,167,306	9,688,996
2026-2027	<u>3,590,070</u>	<u>285,108</u>	<u>3,875,178</u>
	<b><u>\$ 42,524,743</u></b>	<b><u>\$ 23,451,303</u></b>	<b><u>\$ 65,976,046</u></b>

### **G. Related party transactions**

The City provides management services on behalf of the City of Traverse City and Charter Township of Garfield Recreation Authority (the "Authority"), a related party (by virtue of common board members and management). These services include maintaining financial records and reporting. In return for these services, the City received fees from the Authority in the amount of \$10,828 during the year ended June 30, 2005.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### H. Prior period adjustments

Beginning fund balance in the Housing Commission was adjusted by \$(22,799) as a result of the following:

Payment of prior year FICA payroll taxes	\$ (28,113)
Void prior year check	22
To record collection loss recovery	<u>5,292</u>
<b>Total prior period adjustment</b>	<b><u><u>\$ (22,799)</u></u></b>

### I. Subsequent events

#### Construction Commitments

Subsequent to June 30, 2005, the City entered into the following contracts:

Robert T. Cole for improvements to the caretakers residence in the amount of \$119,700.  
Reith Riley for street improvements in the amount of \$180,705.

#### Pollution

On July 7, 2005, the City received a letter from the Michigan Department of Environmental Quality regarding the conditions that are present at or associated with the former Boot Lake Dump Property. The City of Traverse City owned and operated an unregulated landfill at this property from the early 1950's until 1978. The Michigan Department of Environmental Quality performed environmental assessment tests and found that a hazardous substance is present in areas of the property in concentrations that exceed the requirements of Section 20120a(1)(a) or (17) of the NREPA, and determined that the City of Traverse City is liable and will be liable for any costs the State lawfully incurs to perform. The City of Traverse City Commission on December 1, 2005 agreed to pursue response activities, pursuant to Section 14, to address the Michigan Department of Environmental Quality's demand letter of July 7, 2005.

### J. Special item

During the fiscal year the Traverse City Light and Power, a component unit of the City decommissioned the Bayside Plant. As a result, the component unit incurred expenses in the amount of \$1,029,416, and has been recorded as a special item because the project was under management's control and infrequent in nature.

\* \* \* \* \*

**CITY OF TRAVERSE CITY**  
**ACT 345 Pension Trust Fund**  
**Required Supplementary Information**  
**Schedule of Funding Progress**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/94	\$ 11,352,739	\$ 12,750,483	\$ 1,397,744	89.04%	\$ 2,016,886	69.30%
6/30/95	12,268,527	13,327,350	1,058,823	92.06%	2,131,177	49.68%
6/30/96	13,633,711	13,719,091	85,380	99.38%	2,131,057	4.01%
6/30/97	15,520,629	15,077,046	(443,583)	102.94%	2,212,378	0.00%
6/30/98	17,885,188	15,171,393	(2,713,795)	117.9%	2,259,312	0.00%
6/30/99	20,405,330	17,147,459	(3,257,871)	119.0%	2,337,289	0.00%
6/30/2000	22,497,159	18,756,152	(3,741,007)	119.9%	2,470,379	0.00%
6/30/2001	23,695,203	19,552,221	(4,142,982)	121.2%	2,467,235	0.00%
6/30/2002	23,592,627	20,540,751	(3,051,876)	114.9%	2,393,258	0.00%
6/30/2003	22,842,110	21,175,431	(1,666,679)	107.8%	2,402,524	0.00%
6/30/2004	22,038,257	22,711,298	673,041	97.0%	2,671,393	0.00%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
1995 / 1994	\$ 489,957	100%
1996 / 1995	469,685	100
1997 / 1996	401,581	100
1998 / 1997	366,149	100
1999 / 1998	193,624	100
2000 / 1999	227,662	100
2001 / 2000	294,964	100
2002 / 2001	276,417	100
2003 / 2002	342,511	100
2004 / 2003	396,681	100
2005 / 2004	615,269	100

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage.

The information in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2004
Actuarial cost method	Entry - age
Amortization method	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	4 years smoothed market

Actuarial assumptions:

Investment rate of return:	7.50%	
Projected salary increases:	4.5%-7.5%	Includes inflation at 3.75%
Cost of living adjustments:		

2.5% of original pension for twenty years, payable to the Police Captains unit and pre July 1, 1990 retirees, Police Sergeants (effective 8-1-98) and Police Patrol (effective 1-1-99) and Firefighters Unit (effective 7-1-00).



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Permanent Robert Thompson Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>						
<b>Assets</b>						
Cash and cash equivalents	\$ 1,129,004	\$ -	\$ 2,556,809	\$ 31,147	\$ 36,882	\$ 3,753,842
Investments	911,310	-	4,190	530,358	-	1,445,858
Receivables						
Accounts	10,633	-	2,160	-	-	12,793
Taxes	-	-	5,422	-	-	5,422
Special assessments	-	-	355,261	-	-	355,261
Due from other governments	19,577	-	-	-	-	19,577
Due from other funds	3,271	-	-	-	-	3,271
Due from component unit	226,675	-	-	-	-	226,675
Prepaid costs and other assets	297	-	-	-	-	297
Advances to other funds	958,000	-	-	-	-	958,000
<b>Total assets</b>	<b><u>\$ 3,258,767</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,923,842</u></b>	<b><u>\$ 561,505</u></b>	<b><u>\$ 36,882</u></b>	<b><u>\$ 6,780,996</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 55,148	\$ -	\$ 1,720	\$ -	\$ -	\$ 56,868
Accrued and other liabilities	78,205	-	-	-	-	78,205
Due to other funds	51,434	-	-	17,563	-	68,997
Advances from other funds	36,000	-	-	-	-	36,000
Advance from component unit	-	-	101,907	-	-	101,907
Deferred revenue	-	-	253,354	-	-	253,354
<b>Total liabilities</b>	<b><u>220,787</u></b>	<b><u>-</u></b>	<b><u>356,981</u></b>	<b><u>17,563</u></b>	<b><u>-</u></b>	<b><u>595,331</u></b>
<b>Fund balances</b>						
Reserved for						
Prepaid items	297	-	-	-	-	297
Open space	-	-	-	-	36,882	36,882
Endowments	-	-	-	543,942	-	543,942
Capital projects	-	-	2,566,861	-	-	2,566,861
Unreserved						
Designated for subsequent years' expenditures	61,500	-	-	-	-	61,500
Undesignated	2,976,183	-	-	-	-	2,976,183
<b>Total fund balances</b>	<b><u>3,037,980</u></b>	<b><u>-</u></b>	<b><u>2,566,861</u></b>	<b><u>543,942</u></b>	<b><u>36,882</u></b>	<b><u>6,185,665</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,258,767</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,923,842</u></b>	<b><u>\$ 561,505</u></b>	<b><u>\$ 36,882</u></b>	<b><u>\$ 6,780,996</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Cemetery Perpetual Care	Robert Thompson Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>						
Property taxes and special assessments	\$ -	\$ -	\$ 127,584	\$ -	\$ -	\$ 127,584
Federal sources	154,310	-	-	-	-	154,310
State sources	43,883	-	-	-	-	43,883
Local sources	70,100	576,593	-	-	-	646,693
Charges for services	174,357	-	-	12,122	-	186,479
Contributions	78,198	-	-	-	36,521	114,719
Interest income	69,568	-	69,729	19,870	361	159,528
Other revenue	19,982	-	-	-	-	19,982
<b>Total revenues</b>	<b>610,398</b>	<b>576,593</b>	<b>197,313</b>	<b>31,992</b>	<b>36,882</b>	<b>1,453,178</b>
<b>Expenditures</b>						
Current expenditures						
General government	162,474	-	-	-	-	162,474
Public safety	43,419	-	-	-	-	43,419
Public services	347,995	-	-	-	-	347,995
Community development	12,525	-	-	-	-	12,525
Debt service						
Principal	-	10,000	-	-	-	10,000
Interest and fiscal charges	-	566,593	-	-	-	566,593
Capital outlay	131,966	-	170,930	-	-	302,896
<b>Total expenditures</b>	<b>698,379</b>	<b>576,593</b>	<b>170,930</b>	<b>-</b>	<b>-</b>	<b>1,445,902</b>
Excess (deficiency) of revenues over expenditures	(87,981)	-	26,383	31,992	36,882	7,276
<b>Other financing sources (uses)</b>						
Transfers in	128,271	-	23,100	-	-	151,371
Transfers out	(42,663)	-	-	(17,563)	-	(60,226)
<b>Total other financing sources (uses)</b>	<b>85,608</b>	<b>-</b>	<b>23,100</b>	<b>(17,563)</b>	<b>-</b>	<b>91,145</b>
<b>Net change in fund balance</b>	<b>(2,373)</b>	<b>-</b>	<b>49,483</b>	<b>14,429</b>	<b>36,882</b>	<b>98,421</b>
Fund balances, beginning of year	3,040,353	-	2,517,378	529,513	-	6,087,244
<b>Fund balances, end of year</b>	<b>\$ 3,037,980</b>	<b>\$ -</b>	<b>\$ 2,566,861</b>	<b>\$ 543,942</b>	<b>\$ 36,882</b>	<b>\$ 6,185,665</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Revenues**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2005**

	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Taxes</b>			
Real estate and personal property	\$ 7,198,000	\$ 7,179,322	\$ (18,678)
Collection fees	270,000	287,820	17,820
Penalties and interest on taxes	85,000	85,715	715
<b>Total taxes</b>	<b>7,553,000</b>	<b>7,552,857</b>	<b>(143)</b>
<b>Licenses and permits</b>			
Business	183,500	180,886	(2,614)
Nonbusiness	28,350	26,733	(1,617)
<b>Total licenses and permits</b>	<b>211,850</b>	<b>207,619</b>	<b>(4,231)</b>
<b>Federal sources</b>	<b>32,000</b>	<b>67,730</b>	<b>35,730</b>
<b>State sources</b>			
State -shared revenues			
Sales and use tax	1,390,000	1,384,945	(5,055)
Liquor licenses	22,500	25,239	2,739
<b>Total state sources</b>	<b>1,412,500</b>	<b>1,410,184</b>	<b>(2,316)</b>
<b>Local sources</b>			
City fee	1,540,000	1,562,238	22,238
<b>Charges for services</b>			
General fees and services	60,450	48,104	(12,346)
Sale of assets	2,500	2,790	290
Use and admission fees	320,300	309,232	(11,068)
Fine and forfeitures - ordinance and cost	81,000	74,339	(6,661)
<b>Total charges for services</b>	<b>464,250</b>	<b>434,465</b>	<b>(29,785)</b>
<b>Fines and forfeits</b>			
Parking violations	85,500	86,207	707
<b>Reimbursements</b>	<b>480,000</b>	<b>519,368</b>	<b>39,368</b>
<b>Interest income</b>	<b>170,000</b>	<b>162,631</b>	<b>(7,369)</b>
<b>Other revenue</b>			
Rents and royalties	500	(2,026)	(2,526)
Contributions	300,400	306,430	6,030
Other	12,300	30,043	17,743
<b>Total other revenue</b>	<b>313,200</b>	<b>334,447</b>	<b>21,247</b>
<b>Total revenues</b>	<b>\$ 12,262,300</b>	<b>\$ 12,337,746</b>	<b>\$ 75,446</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2005**

	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>General government</b>			
City Commission			
Personnel	\$ 33,150	\$ 34,120	\$ 970
Commodities	1,000	836	(164)
Contractual services	135,500	130,587	(4,913)
Other charges	14,950	10,114	(4,836)
Total city commission	184,600	175,657	(8,943)
City Manager's office			
Personnel	326,550	309,086	(17,464)
Commodities	12,000	8,400	(3,600)
Contractual services	44,200	36,901	(7,299)
Other charges	13,300	10,506	(2,794)
Total city manager's office	396,050	364,893	(31,157)
Human Resources			
Personnel	145,000	145,554	554
Commodities	1,900	1,539	(361)
Contractual services	17,500	14,774	(2,726)
Other charges	7,250	2,297	(4,953)
Total city manager's office	171,650	164,164	(7,486)
City Clerk's office			
Personnel	248,100	238,985	(9,115)
Commodities	20,500	21,504	1,004
Contractual services	51,250	54,493	3,243
Other charges	49,050	47,270	(1,780)
Total city clerk's office	368,900	362,252	(6,648)
Assessor's office			
Personnel	251,600	246,303	(5,297)
Commodities	8,350	6,667	(1,683)
Contractual services	16,450	21,528	5,078
Other charges	3,100	2,623	(477)
Total assessor's office	279,500	277,121	(2,379)
Treasurer's office			
Personnel	270,200	251,983	(18,217)
Commodities	14,600	15,940	1,340
Contractual services	53,400	47,363	(6,037)
Other charges	14,200	6,025	(8,175)
Total treasurer's office	352,400	321,311	(31,089)
Building and grounds			
Other charges	116,000	106,936	(9,064)

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2005**

	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
Planning/Zoning			
Personnel	\$ 202,100	\$ 203,077	\$ 977
Commodities	8,000	5,060	(2,940)
Contractual services	32,000	19,316	(12,684)
Other charges	6,750	6,299	(451)
Total Planning/Zoning	<b>248,850</b>	<b>233,752</b>	<b>(15,098)</b>
Cemetery			
Personnel	128,050	117,903	(10,147)
Commodities	12,000	8,101	(3,899)
Contractual services	155,900	151,527	(4,373)
Other charges	48,800	46,233	(2,567)
Total Cemetery	<b>344,750</b>	<b>323,764</b>	<b>(20,986)</b>
Appropriations	165,900	165,780	(120)
Capital outlay	124,800	115,720	(9,080)
<b>Total general government</b>	<b>2,753,400</b>	<b>2,611,350</b>	<b>(134,564)</b>
<b>Public Safety</b>			
Police			
Personnel	2,730,350	2,641,931	(88,419)
Commodities	79,900	73,349	(6,551)
Contractual services	293,850	308,507	14,657
Other charges	313,050	310,311	(2,739)
Total police	<b>3,417,150</b>	<b>3,334,098</b>	<b>(83,052)</b>
Fire			
Personnel	2,373,150	2,338,301	(34,849)
Commodities	73,250	96,117	22,867
Contractual services	110,800	112,511	1,711
Other charges	378,350	372,619	(5,731)
Total fire	<b>2,935,550</b>	<b>2,919,548</b>	<b>(16,002)</b>
<b>Total Public Safety</b>	<b>6,352,700</b>	<b>6,253,646</b>	<b>(99,054)</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Public Works</b>			
Streets, alleys and sidewalks			
Personnel	\$ 407,050	\$ 273,389	\$ (133,661)
Commodities	36,200	33,906	(2,294)
Contractual services	59,000	79,939	20,939
Other charges	(189,000)	(274,558)	(85,558)
	<u>313,250</u>	<u>112,676</u>	<u>(200,574)</u>
Total streets, alleys and sidewalks			
	<u>313,250</u>	<u>112,676</u>	<u>(200,574)</u>
Public works - director			
Personnel	62,700	62,553	(147)
Commodities	500	288	(212)
Contractual services	2,750	1,932	(818)
Other charges	5,800	5,553	(247)
	<u>71,750</u>	<u>70,326</u>	<u>(1,424)</u>
Total public works - director			
	<u>71,750</u>	<u>70,326</u>	<u>(1,424)</u>
Street lighting - utilities	<u>182,500</u>	<u>180,010</u>	<u>(2,490)</u>
Engineering			
Personnel	555,950	543,733	(12,217)
Commodities	18,000	13,745	(4,255)
Contractual services	44,700	31,073	(13,627)
Other charges	15,600	12,248	(3,352)
	<u>634,250</u>	<u>600,799</u>	<u>(33,451)</u>
Total engineering			
	<u>634,250</u>	<u>600,799</u>	<u>(33,451)</u>
<b>Total Public Works</b>	<b><u>1,201,750</u></b>	<b><u>963,811</u></b>	<b><u>(237,939)</u></b>
<b>Recreation and culture</b>			
Parks			
Personnel	936,050	862,614	(73,436)
Commodities	55,800	46,405	(9,395)
Contractual services	154,500	164,208	9,708
Other charges	377,300	351,312	(25,988)
	<u>1,523,650</u>	<u>1,424,539</u>	<u>(99,111)</u>
Total parks			
	<u>1,523,650</u>	<u>1,424,539</u>	<u>(99,111)</u>
Zoo			
Personnel	241,500	244,842	3,342
Commodities	34,500	31,048	(3,452)
Contractual services	102,700	106,571	3,871
Other charges	121,800	96,577	(25,223)
	<u>500,500</u>	<u>479,038</u>	<u>(21,462)</u>
Total zoo			
	<u>500,500</u>	<u>479,038</u>	<u>(21,462)</u>
<b>Total recreation and culture</b>	<b><u>2,024,150</u></b>	<b><u>1,903,577</u></b>	<b><u>(120,573)</u></b>
<b>Total expenditures</b>	<b><u>\$ 12,332,000</u></b>	<b><u>\$ 11,732,384</u></b>	<b><u>\$ (592,130)</u></b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Transfers**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2005**

	<u><b>Final Budget</b></u>	<u><b>Actual</b></u>	<u><b>Actual Over (Under) Final Budget</b></u>
<b>Transfers in</b>			
Brown Bridge Trust	\$ 270,000	\$ 271,476	\$ 1,476
Other funds	<u>56,500</u>	<u>56,955</u>	<u>455</u>
<b>Total transfers in</b>	<u><b>326,500</b></u>	<u><b>328,431</b></u>	<u><b>1,931</b></u>
<b>Transfers out</b>			
Motor Vehicle Highway	815,000	751,310	(63,690)
Opera House	-	-	-
Public Improvement	268,400	72,827	(195,573)
Con Foster museum	50,000	50,000	-
Senior Center	75,000	75,000	-
Capital Improvement Assessments	<u>43,100</u>	<u>23,100</u>	<u>(20,000)</u>
<b>Total transfers out</b>	<u><b>\$ 1,251,500</b></u>	<u><b>\$ 972,237</b></u>	<u><b>\$ (279,263)</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Public Improvement Capital Projects Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 52,000	\$ 169,541	\$ 117,541
Interest income	35,000	48,804	13,804
Contributions	23,552	240,891	217,339
Other revenue	17,500	266,543	249,043
<b>Total revenues</b>	<u>128,052</u>	<u>725,779</u>	<u>597,727</u>
<b>Expenditures</b>			
Capital outlay	978,052	627,687	(350,365)
Excess (deficiency) of revenues over expenditures	(850,000)	98,092	948,092
<b>Other financing sources</b>			
Transfers in	268,400	72,827	(195,573)
<b>Net change in fund balance</b>	<b>(581,600)</b>	<b>170,919</b>	<b>752,519</b>
Fund balance, beginning of year	2,232,822	2,232,822	-
<b>Fund balance, end of year</b>	<u><u>\$ 1,651,222</u></u>	<u><u>\$ 2,403,741</u></u>	<u><u>\$ 752,519</u></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2005**

	<b>Budget Stabilization Fund</b>	<b>Haz-Mat Fund</b>	<b>Police Training Fund</b>	<b>FETN Academy Fund</b>	<b>State Preparedness Equipment Grant Fund</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 30,929	\$ 10,710	\$ 36	\$ 743	\$ 5
Investments	754,335	-	-	-	-
Accounts receivable	-	290	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from component unit	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 785,264</b>	<b>\$ 11,000</b>	<b>\$ 36</b>	<b>\$ 743</b>	<b>\$ 5</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-	-
Due to other funds	29,392	-	-	-	-
Advances from other funds	-	-	-	-	-
<b>Total liabilities</b>	<b>29,392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance</b>					
Reserved for					
Prepaid items	-	-	-	-	-
Unreserved					
Designated for subsequent					
years' expenditures	-	-	-	-	-
Undesignated	755,872	11,000	36	743	5
<b>Total fund balances</b>	<b>755,872</b>	<b>11,000</b>	<b>36</b>	<b>743</b>	<b>5</b>
<b>Total liabilities and fund balances</b>	<b>\$ 785,264</b>	<b>\$ 11,000</b>	<b>\$ 36</b>	<b>\$ 743</b>	<b>\$ 5</b>

<u>Truancy and Interdiction Grant Fund</u>	<u>Waterfront Redevelopment Grant Fund</u>	<u>Red Mill Development Grant Fund</u>	<u>FEMA Grant Fund</u>	<u>Spotlight Party Patrol Grant Fund</u>	<u>College Parking Fund</u>	<u>Youth Alcohol Enforcement Grant Fund</u>	<u>ConFoster Museum Fund</u>
\$ 3,298	\$ -	\$ -	\$ -	\$ 475	\$ 4,905	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	8,967	-
-	-	-	-	-	-	-	3,271
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 3,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 475</u>	<u>\$ 4,905</u>	<u>\$ 8,967</u>	<u>\$ 3,271</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,015	\$ 3,340	\$ 3,271
-	-	-	-	-	-	-	-
-	-	-	-	-	2,890	5,627	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,905</u>	<u>8,967</u>	<u>3,271</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3,298	-	-	-	475	-	-	-
<u>3,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 3,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 475</u>	<u>\$ 4,905</u>	<u>\$ 8,967</u>	<u>\$ 3,271</u>

Continued....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2005**

	<b>Cherry Capital Cable Fund</b>	<b>ACT 302 Competitive Grant Fund</b>	<b>Senior Citizens Fund</b>	<b>Homeland Security Training Grant Fund</b>	<b>Opera House Fund</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 73,662	\$ 70	\$ 188,000	\$ -	\$ 75,325
Investments	-	-	-	-	-
Accounts receivable	1,128	-	1,500	-	7,715
Due from other governments	-	-	-	10,610	-
Due from other funds	-	-	-	-	-
Due from component unit	-	-	-	-	-
Prepaid costs and other assets	-	-	297	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 74,790</b>	<b>\$ 70</b>	<b>\$ 189,797</b>	<b>\$ 10,610</b>	<b>\$ 83,040</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 418	\$ -	\$ 4,789	\$ 356	\$ 40,911
Accrued and other liabilities	-	-	78,205	-	-
Due to other funds	-	-	-	10,254	-
Advances from other funds	-	-	-	-	36,000
<b>Total liabilities</b>	<b>418</b>	<b>-</b>	<b>82,994</b>	<b>10,610</b>	<b>76,911</b>
<b>Fund balance</b>					
Reserved for					
Prepaid items	-	-	297	-	-
Unreserved					
Designated for subsequent years' expenditures	41,850	-	19,650	-	-
Undesignated	32,522	70	86,856	-	6,129
<b>Total fund balances</b>	<b>74,372</b>	<b>70</b>	<b>106,803</b>	<b>-</b>	<b>6,129</b>
<b>Total liabilities and fund balances</b>	<b>\$ 74,790</b>	<b>\$ 70</b>	<b>\$ 189,797</b>	<b>\$ 10,610</b>	<b>\$ 83,040</b>

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<b>Industrial Development Fund</b>	<b>McCauley Estate Trust Fund</b>	<b>Total</b>
\$ 728,604	\$ 12,242	\$ 1,129,004
68,096	88,879	911,310
-	-	10,633
-	-	19,577
-	-	3,271
226,675	-	226,675
-	-	297
958,000	-	958,000
<b>\$ 1,981,375</b>	<b>\$ 101,121</b>	<b>\$ 3,258,767</b>

\$ 48	\$ -	\$ 55,148
-	-	78,205
-	3,271	51,434
-	-	36,000
<b>48</b>	<b>3,271</b>	<b>220,787</b>

-	-	297
-	-	61,500
1,981,327	97,850	2,976,183
<b>1,981,327</b>	<b>97,850</b>	<b>3,037,980</b>
<b>\$ 1,981,375</b>	<b>\$ 101,121</b>	<b>\$ 3,258,767</b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2005**

	<b>Budget Stabilization Fund</b>	<b>Haz-Mat Fund</b>	<b>Police Training Fund</b>	<b>FETN Academy Fund</b>	<b>State Preparedness Equipment Grant Fund</b>
<b>Revenues</b>					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 121,966
State sources	-	-	7,345	-	-
Local sources	-	15,000	-	3,600	-
Charges for services	-	1,762	-	-	-
Contributions	-	-	-	-	-
Interest income	31,147	-	-	-	-
Other revenue	-	-	-	-	-
<b>Total revenues</b>	<b>31,147</b>	<b>16,762</b>	<b>7,345</b>	<b>3,600</b>	<b>121,966</b>
<b>Expenditures</b>					
Current expenditures					
General government	-	-	-	-	-
Public safety	-	5,588	7,343	3,120	-
Culture and recreations	-	-	-	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	121,966
<b>Total expenditures</b>	<b>-</b>	<b>5,588</b>	<b>7,343</b>	<b>3,120</b>	<b>121,966</b>
Excess (deficiency) of revenues over expenditures	31,147	11,174	2	480	-
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	-	-
Transfers out	(29,392)	(10,000)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(29,392)</b>	<b>(10,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>1,755</b>	<b>1,174</b>	<b>2</b>	<b>480</b>	<b>-</b>
Fund balances, beginning of year	754,117	9,826	34	263	5
<b>Fund balances, end of year</b>	<b>\$ 755,872</b>	<b>\$ 11,000</b>	<b>\$ 36</b>	<b>\$ 743</b>	<b>\$ 5</b>

<b>Truancy and Interdiction Grant Fund</b>	<b>Waterfront Redevelopment Grant Fund</b>	<b>Red Mill Development Grant Cultural Fund</b>	<b>FEMA Grant Fund</b>	<b>Spotlight Party Patrol Grant Cultural</b>	<b>College Parking Fund</b>	<b>Youth Alcohol Enforcement Grant Fund</b>	<b>ConFoster Museum Fund</b>
\$ 2,246	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ 8,967	\$ -
-	25,120	9,868	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	36,317	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
703	-	-	-	-	-	-	-
<b>2,949</b>	<b>25,120</b>	<b>9,868</b>	<b>10,000</b>	<b>-</b>	<b>36,317</b>	<b>8,967</b>	<b>-</b>
-	-	-	-	-	36,317	-	-
5,790	-	-	-	-	-	8,967	-
-	25,120	9,868	-	-	-	-	53,271
-	-	-	-	-	-	-	-
-	-	-	10,000	-	-	-	-
<b>5,790</b>	<b>25,120</b>	<b>9,868</b>	<b>10,000</b>	<b>-</b>	<b>36,317</b>	<b>8,967</b>	<b>53,271</b>
(2,841)	-	-	-	-	-	-	(53,271)
-	-	-	-	-	-	-	53,271
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	<b>53,271</b>
(2,841)	-	-	-	-	-	-	-
6,139	-	-	-	475	-	-	-
<b>\$ 3,298</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Continued....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2005**

	<b>Cherry Capital Cable Fund</b>	<b>ACT 302 Competitive Grant Fund</b>	<b>Senior Citizens Fund</b>	<b>Homeland Security Training Grant Fund</b>	<b>Opera House Fund</b>
<b>Revenues</b>					
Federal sources	\$ -	\$ -	\$ -	\$ 11,131	\$ -
State sources	-	1,550	-	-	-
Local sources	-	-	51,500	-	-
Charges for services	52,177	-	31,052	-	53,049
Contributions	53,576	-	24,622	-	-
Interest income	1,558	-	3,016	-	-
Other revenue	-	-	19,279	-	-
<b>Total revenues</b>	<b>107,311</b>	<b>1,550</b>	<b>129,469</b>	<b>11,131</b>	<b>53,049</b>
<b>Expenditures</b>					
Current expenditures					
General government	126,157	-	-	-	-
Public safety	-	1,480	-	11,131	-
Culture and recreations	-	-	212,816	-	46,920
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<b>126,157</b>	<b>1,480</b>	<b>212,816</b>	<b>11,131</b>	<b>46,920</b>
Excess (deficiency) of revenues over expenditures	(18,846)	70	(83,347)	-	6,129
<b>Other financing sources (uses)</b>					
Transfers in	-	-	75,000	-	-
Transfers out	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(18,846)</b>	<b>70</b>	<b>(8,347)</b>	<b>-</b>	<b>6,129</b>
Fund balances, beginning of year	93,218	-	115,150	-	-
<b>Fund balances, end of year</b>	<b>\$ 74,372</b>	<b>\$ 70</b>	<b>\$ 106,803</b>	<b>\$ -</b>	<b>\$ 6,129</b>

<b>Industrial Development Fund</b>	<b>McCauley Estate Trust Fund</b>	<b>Total</b>
\$ -	\$ -	\$ 154,310
-	-	43,883
-	-	70,100
-	-	174,357
-	-	78,198
30,571	3,276	69,568
-	-	19,982
<b>30,571</b>	<b>3,276</b>	<b>610,398</b>
-	-	162,474
-	-	43,419
-	-	347,995
12,525	-	12,525
-	-	131,966
<b>12,525</b>	<b>-</b>	<b>698,379</b>
18,046	3,276	(87,981)
-	-	128,271
-	(3,271)	(42,663)
<b>-</b>	<b>(3,271)</b>	<b>85,608</b>
<b>18,046</b>	<b>5</b>	<b>(2,373)</b>
1,963,281	97,845	3,040,353
<b>\$ 1,981,327</b>	<b>\$ 97,850</b>	<b>\$ 3,037,980</b>

Concluded



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Budget Stabilization Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 31,000	\$ 31,147	\$ 147
<b>Other financing (uses)</b>			
Transfer out	<u>31,000</u>	<u>29,392</u>	<u>(1,608)</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>1,755</b>	<b>1,755</b>
Fund balance, beginning of year	<u>754,117</u>	<u>754,117</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 754,117</b></u>	<u><b>\$ 755,872</b></u>	<u><b>\$ 1,755</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Haz-Mat Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Local sources	\$ 15,000	\$ 15,000	\$ -
Charges for service	<u>-</u>	<u>1,762</u>	<u>1,762</u>
<b>Total revenues</b>	<u><b>15,000</b></u>	<u><b>16,762</b></u>	<u><b>1,762</b></u>
<b>Expenditures</b>			
Public safety			
Contractual services	4,000	1,322	(2,678)
Supplies	3,800	1,899	(1,901)
Other charges	<u>2,200</u>	<u>2,367</u>	<u>167</u>
<b>Total expenditures</b>	<u><b>10,000</b></u>	<u><b>5,588</b></u>	<u><b>(4,412)</b></u>
Net change in fund balance	5,000	11,174	6,174
<b>Other financing uses</b>			
Transfer out	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u><b>(5,000)</b></u>	<u><b>1,174</b></u>	<u><b>6,174</b></u>
Fund balance, beginning of year	<u>9,826</u>	<u>9,826</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u><b>\$ 4,826</b></u></u>	<u><u><b>\$ 11,000</b></u></u>	<u><u><b>\$ 6,174</b></u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Police Training Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
State sources	\$ 8,000	\$ 7,345	\$ (655)
<b>Expenditures</b>			
Public safety			
Contractual services	<u>8,000</u>	<u>7,343</u>	<u>(657)</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>2</b>	<b>2</b>
Fund balance, beginning of year	<u>34</u>	<u>34</u>	<u>-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 34</u></b>	<b><u>\$ 36</u></b>	<b><u>\$ 2</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**FETN Academy Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Local sources	\$ 3,000	\$ 3,600	\$ 600
<b>Expenditures</b>			
Public safety			
Contractual services	<u>3,000</u>	<u>3,120</u>	<u>120</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>480</b>	<b>480</b>
Fund balance, beginning of year	<u>263</u>	<u>263</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 263</u></u>	<u><u>\$ 743</u></u>	<u><u>\$ 480</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**State Preparedness Equipment Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 150,450	\$ 121,966	\$ (28,484)
<b>Expenditures</b>			
Capital outlay	<u>150,450</u>	<u>121,966</u>	<u>(28,484)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>5</u>	<u>5</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 5</u></u>	<u><u>\$ 5</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Truancy and Interdiction Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 3,000	\$ 2,246	\$ (754)
Other revenue	<u>4,200</u>	<u>703</u>	<u>(3,497)</u>
<b>Total revenues</b>	<u><b>7,200</b></u>	<u><b>2,949</b></u>	<u><b>(4,251)</b></u>
<b>Expenditures</b>			
Public safety			
Contractual services	1,500	5,097	3,597
Commodities	<u>5,700</u>	<u>693</u>	<u>(5,007)</u>
<b>Total expenditures</b>	<u><b>7,200</b></u>	<u><b>5,790</b></u>	<u><b>(1,410)</b></u>
<b>Net change in fund balance</b>	<b>-</b>	<b>(2,841)</b>	<b>(2,841)</b>
Fund balance, beginning of year	<u>6,139</u>	<u>6,139</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 6,139</b></u>	<u><b>\$ 3,298</b></u>	<u><b>\$ (2,841)</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Waterfront Redevelopment Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
State sources	\$ 30,000	\$ 25,120	\$ (4,880)
<b>Expenditures</b>			
<b>Culture and recreation</b>			
Contractual services	<u>30,000</u>	<u>25,120</u>	<u>(4,880)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Red Mill Development Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
State sources	\$ 19,000	\$ 9,868	\$ (9,132)
<b>Expenditures</b>			
<b>Culture and recreation</b>			
Contractual services	<u>19,000</u>	<u>9,868</u>	<u>(9,132)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**FEMA Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 20,000	\$ 10,000	\$ (10,000)
<b>Expenditures</b>			
Capital outlay	<u>20,000</u>	<u>10,000</u>	<u>(10,000)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Spotlight Party Patrol Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>	\$ -	\$ -	\$ -
<b>Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>475</u>	<u>475</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 475</u></u>	<u><u>\$ 475</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**College Parking Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Charges for services	\$ 50,000	\$ 36,317	\$ (13,683)
<b>Expenditures</b>			
General government			
Personnel	7,300	2,244	(5,056)
Contractual services	37,900	32,612	(5,288)
Commodities	500	-	(500)
Other expense	4,300	1,461	(2,839)
<b>Total expenditures</b>	<u>50,000</u>	<u>36,317</u>	<u>(13,683)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Youth Alcohol Enforcement Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 14,000	\$ 8,967	\$ (5,033)
<b>Expenditures</b>			
Public safety			
Personnel	7,000	3,627	(3,373)
Contractual services	7,000	3,340	(3,660)
Other expense	-	2,000	2,000
<b>Total expenditures</b>	<u>14,000</u>	<u>8,967</u>	<u>(5,033)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**ConFoster Museum Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Expenditures</b>			
Culture and recreation			
Contractual services	\$ 51,850	\$ 53,271	\$ 1,421
Other expense	2,150	-	(2,150)
<b>Total expenditures</b>	<b>54,000</b>	<b>53,271</b>	<b>(729)</b>
<b>Other financing sources</b>			
Transfer in	54,000	53,271	(729)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Cherry Capital Cable Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Charges for services	\$ 52,200	\$ 52,177	\$ (23)
Contributions	47,350	53,576	6,226
Interest income	-	1,558	1,558
<b>Total revenues</b>	<u><b>99,550</b></u>	<u><b>107,311</b></u>	<u><b>7,761</b></u>
<b>Expenditures</b>			
General government			
Contractual services	50,800	35,920	(14,880)
Commodities	500	681	181
Other expense	90,450	89,556	(894)
<b>Total expenditures</b>	<u><b>141,750</b></u>	<u><b>126,157</b></u>	<u><b>(15,593)</b></u>
<b>Net change in fund balance</b>	<b>(42,200)</b>	<b>(18,846)</b>	<b>23,354</b>
Fund balance, beginning of year	93,218	93,218	-
<b>Fund balance, end of year</b>	<u><u><b>\$ 51,018</b></u></u>	<u><u><b>\$ 74,372</b></u></u>	<u><u><b>\$ 23,354</b></u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**ACT 302 Competitive Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
State sources	\$ 60,200	\$ 1,550	\$ (58,650)
<b>Expenditures</b>			
Public safety			
Other expense	-	1,480	1,480
Capital outlay	60,200	-	(60,200)
<b>Total expenditures</b>	<u>60,200</u>	<u>1,480</u>	<u>(58,720)</u>
<b>Net change in fund balance</b>	-	70	70
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ 70</u>	<u>\$ 70</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Senior Citizens Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Local sources	\$ 51,500	\$ 51,500	\$ -
Charges for services	25,000	31,052	6,052
Contributions	78,500	24,622	(53,878)
Interest income	1,500	3,016	1,516
Other revenue	10,000	19,279	9,279
<b>Total revenues</b>	<b>166,500</b>	<b>129,469</b>	<b>(37,031)</b>
<b>Expenditures</b>			
Culture and recreation			
Personnel	129,600	138,149	8,549
Contractual services	28,500	27,425	(1,075)
Commodities	17,800	18,000	200
Other expense	19,550	27,397	7,847
Capital outlay	2,000	1,845	(155)
<b>Total expenditures</b>	<b>197,450</b>	<b>212,816</b>	<b>15,366</b>
Net change in fund balance	(30,950)	(83,347)	(52,397)
<b>Other financing uses</b>			
Transfer in	75,000	75,000	-
<b>Net change in fund balance</b>	<b>44,050</b>	<b>(8,347)</b>	<b>(52,397)</b>
Fund balance, beginning of year	115,150	115,150	-
<b>Fund balance, end of year</b>	<b>\$ 159,200</b>	<b>\$ 106,803</b>	<b>\$ (52,397)</b>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Homeland Security Training Grant Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u><b>Final Budget</b></u>	<u><b>Actual</b></u>	<u><b>Actual Over (Under) Final Budget</b></u>
<b>Revenues</b>			
Federal sources	\$ 20,000	\$ 11,131	\$ (8,869)
<b>Expenditures</b>			
Public safety			
Personnel	-	10,160	10,160
Contractual services	-	86	86
Other expense	20,000	885	(19,115)
<b>Total expenditures</b>	<u><b>20,000</b></u>	<u><b>11,131</b></u>	<u><b>(8,869)</b></u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ -</b></u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Opera House Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Charges for services	\$ 50,000	\$ 53,049	\$ 3,049
<b>Expenditures</b>			
Culture and recreation			
Contractual services	10,000	33,507	23,507
Other expense	40,000	13,413	(26,587)
<b>Total expenditures</b>	<u>50,000</u>	<u>46,920</u>	<u>(3,080)</u>
<b>Net change in fund balance</b>	-	6,129	6,129
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ 6,129</u>	<u>\$ 6,129</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Industrial Development Special Revenue Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Interest income	\$ 27,000	\$ 30,571	\$ 3,571
<b>Expenditures</b>			
Community development			
Contractual services	12,000	11,500	(500)
Other expense	2,000	1,025	(975)
Capital outlay	13,000	-	(13,000)
<b>Total expenditures</b>	<u>27,000</u>	<u>12,525</u>	<u>(14,475)</u>
<b>Net change in fund balance</b>	-	18,046	18,046
Fund balance, beginning of year	1,963,281	1,963,281	-
<b>Fund balance, end of year</b>	<u><u>\$ 1,963,281</u></u>	<u><u>\$ 1,981,327</u></u>	<u><u>\$ 18,046</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**McCauley Estate Trust Special Revenue Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Interest income	\$ 4,000	\$ 3,276	\$ (724)
<b>Other financing uses</b>			
Transfer out	<u>(4,000)</u>	<u>(3,271)</u>	<u>729</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>5</b>	<b>5</b>
Fund balance, beginning of year	<u>97,845</u>	<u>97,845</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 97,845</b></u>	<u><b>\$ 97,850</b></u>	<u><b>\$ 5</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2005**

	<b>Parking Deck Bond Redemption Non-Taxable</b>	<b>Parking Deck Bond Redemption Taxable</b>	<b>Total</b>
<b>Revenues</b>			
Local sources	\$ 484,143	\$ 92,450	\$ 576,593
<b>Expenditures</b>			
Debt service			
Principal	5,000	5,000	10,000
Interest and fiscal charges	479,143	87,450	566,593
<b>Total expenditures</b>	<b>484,143</b>	<b>92,450</b>	<b>576,593</b>
<b>Net change in fund balance</b>	-	-	-
Fund balances, beginning of year	-	-	-
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Non-Taxable Debt Service Fund**  
**For the Year Ended June 30, 2005**

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	<u><b>Final Budget</b></u>	<u><b>Actual</b></u>	<u><b>Actual Over (Under) Final Budget</b></u>
<b>Revenues</b>			
Local sources	<u>\$ 484,150</u>	<u>\$ 484,143</u>	<u>\$ (7)</u>
<b>Expenditures</b>			
Debt service			
Principal	5,000	5,000	-
Interest and fiscal charges	<u>479,150</u>	<u>479,143</u>	<u>(7)</u>
<b>Total expenditures</b>	<u><b>484,150</b></u>	<u><b>484,143</b></u>	<u><b>(7)</b></u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ -</b></u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Taxable Debt Service Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Local sources	\$ 92,450	\$ 92,450	\$ -
<b>Expenditures</b>			
Debt service			
Principal	5,000	5,000	-
Interest and fiscal charges	87,450	87,450	-
<b>Total expenditures</b>	<u>92,450</u>	<u>92,450</u>	<u>-</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
**June 30, 2005**

	<b>Recaptured Grant Revolving Loan</b>	<b>Parking Deck Bond Construction Taxable</b>	<b>Parking Bond Construction Non-taxable</b>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 146,877	\$ 94,105	\$ 842,464
Investments	-	-	-
Receivables			
Accounts	-	324	1,836
Taxes	-	-	-
Special assessments	-	-	-
<b>Total assets</b>	<b>\$ 146,877</b>	<b>\$ 94,429</b>	<b>\$ 844,300</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Advance from component unit	-	-	-
Deferred revenue	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>			
Reserved for capital projects	146,877	94,429	844,300
<b>Total liabilities and fund balances</b>	<b>\$ 146,877</b>	<b>\$ 94,429</b>	<b>\$ 844,300</b>



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<b>Capital Improvement Assessments</b>	<b>Total</b>
\$ 1,473,363	\$ 2,556,809
4,190	4,190
-	2,160
5,422	5,422
355,261	355,261
<b>\$ 1,838,236</b>	<b>\$ 2,923,842</b>

\$ 1,720	\$ 1,720
101,907	101,907
253,354	253,354
<b>356,981</b>	<b>356,981</b>
1,481,255	2,566,861
<b>\$ 1,838,236</b>	<b>\$ 2,923,842</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2005**

	<b>Recaptured Grant Revolving Loan</b>	<b>Parking Deck Bond Construction Taxable</b>	<b>Parking Deck Bond Construction Non-Taxable</b>
<b>Revenues</b>			
Special assessments	\$       -	\$       -	\$       -
Interest income	<u>3,117</u>	<u>603</u>	<u>17,086</u>
<b>Total revenues</b>	<b>3,117</b>	<b>603</b>	<b>17,086</b>
<b>Expenditures</b>			
Capital outlay	<u>1,200</u>	<u>13,266</u>	<u>90,558</u>
Excess (deficiency) of revenues over expenditures	1,917	(12,663)	(73,472)
<b>Other financing sources</b>			
Transfer in	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	<b>1,917</b>	<b>(12,663)</b>	<b>(73,472)</b>
Fund balance, beginning of year	<u>144,960</u>	<u>107,092</u>	<u>917,772</u>
<b>Fund balance, end of year</b>	<b><u>\$ 146,877</u></b>	<b><u>\$ 94,429</u></b>	<b><u>\$ 844,300</u></b>

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<b>Capital Improvement Assessments</b>	<b>Total</b>
\$ 127,584	\$ 127,584
48,923	69,729
<b>176,507</b>	<b>197,313</b>
65,906	170,930
110,601	26,383
23,100	23,100
<b>133,701</b>	<b>49,483</b>
1,347,554	2,517,378
<b>\$ 1,481,255</b>	<b>\$ 2,566,861</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Recaptured Grant Revolving Loan Capital Projects Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 2,000	\$ 3,117	\$ 1,117
<b>Expenditures</b>			
Capital outlay	<u>2,000</u>	<u>1,200</u>	<u>(800)</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>1,917</b>	<b>1,917</b>
Fund balance, beginning of year	<u>144,960</u>	<u>144,960</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 144,960</b></u>	<u><b>\$ 146,877</b></u>	<u><b>\$ 1,917</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Construction Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 500	\$ 603	\$ 103
<b>Expenditures</b>			
Capital outlay	118,000	13,266	(104,734)
<b>Net change in fund balance</b>	<b>(117,500)</b>	<b>(12,663)</b>	<b>104,837</b>
Fund balance, beginning of year	107,092	107,092	-
<b>Fund balance (deficit), end of year</b>	<u><u>\$ (10,408)</u></u>	<u><u>\$ 94,429</u></u>	<u><u>\$ 104,837</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Construction Non-Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2005**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Interest income	\$ 3,000	\$ 17,086	\$ 14,086
<b>Expenditures</b>			
Capital outlay	<u>1,007,000</u>	<u>90,558</u>	<u>(916,442)</u>
<b>Net change in fund balance</b>	<b>(1,004,000)</b>	<b>(73,472)</b>	<b>930,528</b>
Fund balance, beginning of year	<u>917,772</u>	<u>917,772</u>	<u>-</u>
<b>Fund balance (deficit), end of year</b>	<b><u>\$ (86,228)</u></b>	<b><u>\$ 844,300</u></b>	<b><u>\$ 930,528</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Capital Improvement Assessments Capital Projects Fund**  
**For the Year Ended June 30, 2005**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Special assessments	\$ 219,200	\$ 127,584	\$ (91,616)
Federal sources	-	-	-
Interest income	<u>30,000</u>	<u>48,923</u>	<u>18,923</u>
<b>Total revenues</b>	<u><b>249,200</b></u>	<u><b>176,507</b></u>	<u><b>(72,693)</b></u>
<b>Expenditures</b>			
Capital outlay	<u>292,300</u>	<u>65,906</u>	<u>(226,394)</u>
Excess (deficiency) of revenues over expenditures	(43,100)	110,601	153,701
<b>Other financing sources</b>			
Transfer in	<u>43,100</u>	<u>23,100</u>	<u>(20,000)</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>133,701</b>	<b>133,701</b>
Fund balance, beginning of year	<u>1,347,554</u>	<u>1,347,554</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 1,347,554</b></u>	<u><b>\$ 1,481,255</b></u>	<u><b>\$ 133,701</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2005**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 42,753	\$ 321,664	\$ 1,413,002	\$ 1,777,419
Investments	999,380	975,000	-	1,974,380
Accounts receivable	-	-	5,482	5,482
Inventories	-	-	109,725	109,725
Prepaid costs and other assets	-	-	3,598	3,598
Total current assets	<u>1,042,133</u>	<u>1,296,664</u>	<u>1,531,807</u>	<u>3,870,604</u>
Noncurrent assets				
Capital assets	-	-	5,734,286	5,734,286
<b>Total assets</b>	<b><u>1,042,133</u></b>	<b><u>1,296,664</u></b>	<b><u>7,266,093</u></b>	<b><u>9,604,890</u></b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	-	-	226,467	226,467
Accrued and other liabilities	-	-	29,355	29,355
Total current liabilities	-	-	255,822	255,822
Noncurrent liabilities				
Compensated absences	-	-	31,892	31,892
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>287,714</u></b>	<b><u>287,714</u></b>
<b>Net assets</b>				
Invested in capital assets	-	-	5,734,286	5,734,286
Unreserved	<u>1,042,133</u>	<u>1,296,664</u>	<u>1,244,093</u>	<u>3,582,890</u>
<b>Total net assets</b>	<b><u>\$ 1,042,133</u></b>	<b><u>\$ 1,296,664</u></b>	<b><u>\$ 6,978,379</u></b>	<b><u>\$ 9,317,176</u></b>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2005**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Operating revenue</b>				
Interdepartmental	\$ 111,330	\$ 303,755	\$ 2,106,956	\$ 2,522,041
<b>Operating expenses</b>				
Personnel services	-	-	664,761	664,761
Commodities	-	-	490,821	490,821
Contractual services	-	-	61,719	61,719
Other charges	-	-	231,904	231,904
Benefit payments	55,494	-	-	55,494
Depreciation	-	-	784,438	784,438
<b>Total operating expenses</b>	<b>55,494</b>	<b>-</b>	<b>2,233,643</b>	<b>2,289,137</b>
Operating income (loss)	55,836	303,755	(126,687)	232,904
<b>Non-operating revenues</b>				
Local sources	-	-	225,000	225,000
Interest income	20,033	14,014	21,919	55,966
Other revenue	-	-	81,640	81,640
Gain on sale of capital assets	-	-	323,258	323,258
<b>Total non-operating revenues</b>	<b>20,033</b>	<b>14,014</b>	<b>651,817</b>	<b>685,864</b>
<b>Change in net assets</b>	<b>75,869</b>	<b>317,769</b>	<b>525,130</b>	<b>918,768</b>
Net assets, beginning of year	966,264	978,895	6,453,249	8,398,408
<b>Net assets, end of year</b>	<b>\$ 1,042,133</b>	<b>\$ 1,296,664</b>	<b>\$ 6,978,379</b>	<b>\$ 9,317,176</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2005**

	<u>Retiree Health Insurance</u>	<u>Police &amp; Fire Retiree Health Insurance</u>	<u>Municipal Garage</u>	<u>Total</u>
<b>Cash flows from operating activities</b>				
Cash receipts from interfund services	\$ 111,330	\$ 303,755	\$ 2,105,452	\$ 2,520,537
Cash payments to suppliers for goods and services	-	-	(1,262,259)	(1,262,259)
Cash payments to employees for services	(55,494)	-	(659,880)	(715,374)
<b>Net cash provided by operating activities</b>	<b>55,836</b>	<b>303,755</b>	<b>183,313</b>	<b>542,904</b>
<b>Cash flows from non-capital financing activities</b>				
Other revenue	-	-	81,640	81,640
<b>Cash flows from capital and related financing activities</b>				
Capital contribution	-	-	225,000	225,000
Purchases of capital assets	-	-	(971,109)	(971,109)
Proceeds from sale of capital assets	-	-	635,969	635,969
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>-</b>	<b>(110,140)</b>	<b>(110,140)</b>
<b>Cash flows from investing activities</b>				
Interest received	20,033	14,014	21,919	55,966
Purchase of investments	(206,628)	(975,000)	-	(1,181,628)
<b>Net cash provided by (used in) investing activities</b>	<b>(186,595)</b>	<b>(960,986)</b>	<b>21,919</b>	<b>(1,125,662)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(130,759)</b>	<b>(657,231)</b>	<b>176,732</b>	<b>(611,258)</b>
Cash and cash equivalents, beginning of year	173,512	978,895	1,236,270	2,388,677
<b>Cash and cash equivalents, end of year</b>	<b>\$ 42,753</b>	<b>\$ 321,664</b>	<b>\$ 1,413,002</b>	<b>\$ 1,777,419</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 55,836	\$ 303,755	\$ (126,687)	\$ 232,904
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	-	-	784,438	784,438
Changes in assets and liabilities				
Accounts receivables	-	-	(1,504)	(1,504)
Prepaid costs and other assets	-	-	(208)	(208)
Inventories	-	-	7,459	7,459
Accounts payable	-	-	(485,066)	(485,066)
Accrued and other liabilities	-	-	4,881	4,881
<b>Net cash provided by operating activities</b>	<b>\$ 55,836</b>	<b>\$ 303,755</b>	<b>\$ 183,313</b>	<b>\$ 542,904</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Agency Funds**  
**June 30, 2005**

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	<u>Senior Center</u>	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 44,620	\$ 19,799	\$ 56,582	\$ 121,001
Account receivable	-	-	564	564
Taxes receivables	-	399,091	-	399,091
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b><u>\$ 44,620</u></b>	<b><u>\$ 418,890</u></b>	<b><u>\$ 57,146</u></b>	<b><u>\$ 520,656</u></b>
 <b>Liabilities</b>				
Accrued and other liabilities	\$ 44,176	\$ -	\$ 45,720	\$ 89,896
Due to other governmental units	444	418,890	11,426	430,760
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b><u>\$ 44,620</u></b>	<b><u>\$ 418,890</u></b>	<b><u>\$ 57,146</u></b>	<b><u>\$ 520,656</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**All Agency Funds**  
**For the Year Ended June 30, 2005**

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<b>SENIOR CENTER</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 15,226	\$ 29,568	\$ 174	\$ 44,620
<b>Liabilities</b>				
Accrued and other liabilities	\$ 15,051	\$ 29,125	\$ -	\$ 44,176
Due to other governmental units	175	443	174	444
<b>Total liabilities</b>	<b>\$ 15,226</b>	<b>\$ 29,568</b>	<b>\$ 174</b>	<b>\$ 44,620</b>
<b>TAX COLLECTION</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 90,415	\$ 19,901,320	\$ 19,971,936	\$ 19,799
Taxes receivable	323,786	20,959,988	20,884,683	399,091
<b>Total assets</b>	<b>\$ 414,201</b>	<b>\$ 40,861,308</b>	<b>\$ 40,856,619</b>	<b>\$ 418,890</b>
<b>Liabilities</b>				
Due to other governmental units	\$ 414,201	\$ 20,536,564	\$ 20,531,875	\$ 418,890
<b>IMPREST PAYROLL</b>				
<b>Assets</b>				
Cash	\$ 30,994	\$ 10,552,142	\$ 10,526,554	\$ 56,582
Accounts receivable	-	155,418	154,854	564
Cash and cash equivalents	<b>\$ 30,994</b>	<b>\$ 10,707,560</b>	<b>\$ 10,681,408</b>	<b>\$ 57,146</b>
<b>Liabilities</b>				
Accrued and other liabilities	5,896	10,852,889	10,813,065	45,720
Due to other governmental units	25,098	11,426	25,098	11,426
<b>Total liabilities</b>	<b>\$ 30,994</b>	<b>\$ 10,864,315</b>	<b>\$ 10,838,163</b>	<b>\$ 57,146</b>
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 136,635	\$ 30,483,030	\$ 30,498,664	\$ 121,001
Accounts receivable	-	155,418	154,854	564
Taxes receivable	323,786	20,959,988	20,884,683	399,091
<b>Total assets</b>	<b>\$ 460,421</b>	<b>\$ 51,598,436</b>	<b>\$ 51,538,201</b>	<b>\$ 520,656</b>
<b>Liabilities</b>				
Accrued and other liabilities	\$ 20,947	\$ 10,882,014	\$ 10,813,065	\$ 89,896
Due to other governmental units	439,459	20,548,433	20,557,147	430,760
<b>Total liabilities</b>	<b>\$ 460,406</b>	<b>\$ 31,430,447</b>	<b>\$ 31,370,212</b>	<b>\$ 520,656</b>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 28, 2005

The Honorable Mayor and  
Members of the City Commission  
City of Traverse City  
Traverse City County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Traverse City, Michigan***, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the *Traverse City Housing Commission* discrete component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements insofar as it related to the amounts included for the *Traverse City Housing Commission* discrete component unit, is based on the report of the other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the ***City of Traverse City, Michigan***, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Traverse City, Michigan*, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Traverse City, Michigan* in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of management and members of the City Commission, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Governmental Revenues by Source**  
**General Fund**  
**Last Ten Fiscal Years**

<b><u>FISCAL YEAR</u></b>		<u>Taxes</u>	<u>Licenses and permits</u>	<u>Federal sources</u>	<u>State sources</u>	<u>Charges for services</u>	<u>Fines and forfeitures</u>	<u>Reimbursements</u>	<u>Other revenues</u>	<u>Transfer in</u>	<u>Total revenues</u>
1995-96	\$	4,933,167	399,186	-	1,548,544	392,547	106,049	217,029	1,275,394	500,720	\$ 9,372,636
1996-97		5,232,075	390,588	-	1,663,180	381,075	90,061	199,171	1,308,503	482,359	9,747,012
1997-98		5,472,076	376,752	-	1,704,593	348,403	77,221	179,543	1,441,022	505,704	10,105,314
1998-99		5,749,266	351,469	-	1,711,130	364,874	66,972	253,292	1,613,225	512,139	10,622,367
1999-00		6,031,092	187,962	-	1,847,197	378,360	72,244	244,973	1,634,569	498,140	10,894,537
2000-01		6,235,342	143,359	-	1,800,418	450,204	104,741	234,915	1,810,342	583,702	11,363,023
2001-02		6,545,558	170,298	-	1,669,987	387,573	81,269	234,686	1,613,030	401,831	11,104,232
2002-03		6,853,268	182,636	31,706	1,578,468	395,835	75,881	188,986	1,592,377	247,185	11,146,342
2003-04		6,964,990	197,834	37,243	1,422,431	451,519	78,822	294,302	1,894,848	267,596	11,609,585
2004-05		7,552,857	207,619	67,730	1,410,184	434,465	86,207	519,368	2,059,315	328,431	12,666,176

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Governmental Expenditures by Function**  
**General Fund**  
**Last Ten Fiscal Years**

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<b><u>FISCAL YEAR</u></b>	<b><u>General government</u></b>	<b><u>Public safety</u></b>	<b><u>Highways and street</u></b>	<b><u>Parks and recreation</u></b>	<b><u>Other</u></b>	<b><u>Transfer out</u></b>	<b><u>Total expenditures</u></b>
1995-96	\$ 1,166,323	4,175,741	164,271	904,768	1,105,610	1,323,355	\$ 8,840,068
1996-97	1,211,277	4,332,577	279,571	950,239	1,171,660	1,678,051	9,623,375
1997-98	1,220,473	4,482,229	315,777	975,999	1,223,782	1,344,240	9,562,500
1998-99	1,307,921	4,519,806	27,640	1,037,238	1,468,123	1,931,131	10,291,859
1999-00	1,364,723	4,488,687	280,907	1,147,677	1,342,893	2,111,370	10,736,257
2000-01	1,434,684	4,725,452	348,424	1,200,482	1,488,486	1,733,387	10,930,915
2001-02	1,478,199	4,691,610	437,952	1,246,748	1,582,933	1,528,480	10,965,922
2002-03	1,535,166	4,937,169	361,728	1,344,120	1,701,434	1,396,721	11,276,338
2003-04	1,615,893	5,630,071	373,689	1,404,893	1,783,939	1,160,682	11,969,167
2004-05	1,772,334	6,253,646	363,012	1,424,539	1,918,853	972,237	12,704,621



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

<b>FISCAL YEAR</b>	Parking deck non-taxable		Parking deck taxable		Total		Ratio of total assessed to total estimated actual value
	Assessed value	Estimated actual value	Assessed value	Estimated actual value	Assessed value	Estimated actual value	
1995	\$ 319,452,510	638,905,020	40,119,000	80,238,000	359,571,510	\$ 719,143,020	n/a
1996	332,029,423	664,058,846	44,237,800	88,475,600	376,267,223	752,534,446	n/a
1997	345,883,565	691,767,130	51,824,371	103,648,742	397,707,936	795,415,872	n/a
1998	366,353,194	732,706,388	55,457,397	110,914,794	421,810,591	843,621,182	n/a
1999	475,181,171	950,362,342	60,168,800	120,337,600	535,349,971	1,070,699,942	n/a
2000	529,474,850	1,058,949,700	60,310,990	120,621,980	589,785,840	1,179,571,680	n/a
2001	576,913,753	1,153,827,506	63,151,000	126,302,000	640,064,753	1,280,129,506	n/a
2002	623,695,547	1,247,391,094	69,739,840	139,479,680	693,435,387	1,386,870,774	n/a
2003	667,927,062	1,335,854,124	70,023,030	140,046,060	737,950,092	1,475,900,184	n/a
2004	702,211,550	1,404,423,100	73,065,940	146,131,880	775,277,490	1,550,554,980	n/a

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Debt Service Requirements to Maturity**

	Parking deck non-taxable		Parking deck taxable		Sewage disposal		Water plant		Primary government	Component unit Light and power		Component unit	Reporting entity
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total principal and interest	Principal	Interest	Total principal and interest	Total principal and interest
2005-06	\$ 5,000	\$ 478,660	\$ 5,000	\$ 86,970	\$ 913,316	\$ 790,452	\$ 175,000	\$ 100,500	\$ 2,554,898	\$ 310,000	\$ 7,750	\$ 317,750	\$ 2,872,648
2006-07	40,000	478,428	130,000	86,720	928,456	765,482	175,000	90,000	2,694,086	-	-	-	2,694,086
2007-08	40,000	476,568	130,000	79,700	959,212	737,807	200,000	79,500	2,702,787	-	-	-	2,702,787
2008-09	30,000	474,708	140,000	72,420	976,642	706,732	200,000	67,500	2,668,002	-	-	-	2,668,002
2009-10	30,000	473,313	140,000	64,300	1,039,133	673,060	225,000	55,500	2,700,306	-	-	-	2,700,306
2010-11	55,000	471,918	120,000	55,900	1,084,194	635,100	225,000	42,000	2,689,112	-	-	-	2,689,112
2011-12	90,000	469,360	120,000	48,700	1,141,209	593,877	225,000	28,500	2,716,646	-	-	-	2,716,646
2012-13	125,000	465,175	125,000	41,500	1,206,055	548,912	250,000	15,000	2,776,642	-	-	-	2,776,642
2013-14	170,000	459,363	125,000	33,750	1,155,087	500,301	-	-	2,443,501	-	-	-	2,443,501
2014-15	215,000	451,458	125,000	25,875	1,224,662	452,389	-	-	2,494,384	-	-	-	2,494,384
2015-16	260,000	441,460	135,000	17,875	1,044,326	400,456	-	-	2,299,117	-	-	-	2,299,117
2016-17	305,000	429,110	140,000	9,100	1,087,243	353,984	-	-	2,324,437	-	-	-	2,324,437
2017-18	495,000	414,318	-	-	1,144,467	304,514	-	-	2,358,299	-	-	-	2,358,299
2018-19	550,000	390,063	-	-	1,201,690	251,296	-	-	2,393,049	-	-	-	2,393,049
2019-20	610,000	362,563	-	-	1,258,913	194,216	-	-	2,425,692	-	-	-	2,425,692
2020-21	675,000	331,757	-	-	1,316,137	133,159	-	-	2,456,053	-	-	-	2,456,053
2021-22	745,000	297,670	-	-	1,373,357	68,668	-	-	2,484,695	-	-	-	2,484,695
2022-23	825,000	259,675	-	-	-	-	-	-	1,084,675	-	-	-	1,084,675
2023-24	850,000	217,600	-	-	-	-	-	-	1,067,600	-	-	-	1,067,600
2024-25	850,000	174,250	-	-	-	-	-	-	1,024,250	-	-	-	1,024,250
2025-26	850,000	130,900	-	-	-	-	-	-	980,900	-	-	-	980,900
2026-27	850,000	87,550	-	-	-	-	-	-	937,550	-	-	-	937,550
2027-28	850,000	43,775	-	-	-	-	-	-	893,775	-	-	-	893,775
Total	<u>\$ 9,515,000</u>	<u>\$ 8,279,642</u>	<u>\$ 1,435,000</u>	<u>\$ 622,810</u>	<u>\$ 19,054,099</u>	<u>\$ 8,110,405</u>	<u>\$ 1,675,000</u>	<u>\$ 478,500</u>	<u>\$ 49,170,456</u>	<u>\$ 310,000</u>	<u>\$ 7,750</u>	<u>\$ 317,750</u>	<u>\$ 49,488,206</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Revenue Bond Coverage**

	Gross revenue	Expenses	Net revenue available for debt services	Debt service requirements principal	Interest	Total	Coverage
1966-77 Electric Utility Bonds (Serviced by Traverse City Light and Power, a Component Unit)							
1995	\$ 14,711,908	\$ 12,678,475	\$ 2,033,433	\$ 195,000	\$ 122,185	\$ 317,185	6.41%
1996	15,177,045	13,277,889	1,899,156	195,000	116,012	311,012	6.11
1997	15,546,564	12,812,273	2,734,291	205,000	102,743	307,743	8.88
1998	16,497,144	13,757,136	2,740,008	220,000	94,713	314,713	8.71
1999	17,390,752	14,196,507	3,194,245	225,000	90,437	315,437	10.13
2000	19,095,110	15,557,912	3,537,198	235,000	81,642	316,642	11.17
2001	19,383,292	15,798,532	3,584,760	245,000	71,617	316,617	11.32
2002	20,406,282	16,712,034	3,694,248	255,000	60,863	315,863	11.70
2003	22,390,615	19,106,163	3,284,452	280,000	36,388	316,388	10.38
2004	23,208,180	21,483,058	1,725,122	295,000	22,654	317,654	5.43
2005	25,146,158	24,522,026	624,132	310,000	7,750	317,750	1.96
1964 and 1992 Water Bonds (Serviced by Water Department)							
1995	\$ 1,641,861	\$ 1,631,327	\$ 10,534	\$ 105,000	\$ 177,050	\$ 282,050	3.73%
1996	1,678,746	1,475,181	203,565	105,000	175,650	280,650	0.73
1997	1,661,507	1,505,289	156,218	110,000	167,183	277,183	0.56
1998	1,938,966	1,512,270	426,696	125,000	79,691	204,691	2.08
1999	1,958,236	1,635,196	323,040	125,000	62,678	187,678	1.72
2000	1,949,146	1,622,419	326,727	125,000	144,851	269,851	1.21
2001	1,951,446	1,649,062	302,384	125,000	138,413	263,413	1.15
2002	2,210,939	1,741,640	469,299	125,000	131,788	256,788	1.83
2003	2,208,221	1,909,535	298,686	150,000	117,975	267,975	1.11
2004	2,078,220	1,946,220	132,000	150,000	109,350	259,350	0.51
2005	2,568,619	1,995,093	573,526	175,000	100,500	275,500	2.08

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property Tax Millage Rates - All Overlapping Governments**  
**1990 through 2004**

<u>FISCAL YEAR</u>	<u>CITY</u>	<u>COUNTY</u>	<u>SCHOOL</u>	<u>OTHER</u>	<u>TOTAL</u>
1990	13.7575	6.2000	35.5300	6.4700	61.9575
1991	13.7575	6.2000	35.5600	6.3749	61.8924
1992	13.7575	6.1529	35.7600	6.3747	62.0451
1993	13.7575	5.7400	33.2600	5.8800	58.6375
1994 - Homestead	13.7575	5.7400	8.8000	5.8604	34.1579
1994 - Non-Homestead	13.7575	5.7400	26.8000	5.8604	52.1579
1995 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1995 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1996 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1996 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1997 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1997 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1998 - Homestead	13.7575	5.6508	9.6000	8.7206	37.7289
1998 - Non-Homestead	13.7575	5.6508	27.4866	8.7206	55.6155
1999 - Homestead	13.7575	5.5666	9.1000	8.5118	36.9359
1999 - Non-Homestead	13.7575	5.5666	27.1000	8.5118	54.9359
2000 - Homestead	13.6199	5.4719	9.1000	8.5935	36.7853
2000 - Non-Homestead	13.6199	5.4719	27.1000	8.5935	54.7853
2001 - Homestead	13.5447	5.3931	9.1000	8.6003	36.6381
2001 - Non-Homestead	13.5447	5.3931	27.1000	8.6003	54.6381
2002 - Homestead	13.3943	5.3165	9.1000	8.5532	36.3640
2002 - Non-Homestead	13.3943	5.3165	27.1000	8.5532	54.3640
2003 - Homestead	13.2295	5.2112	8.1000	10.4245	36.9652
2003 - Non-Homestead	13.2295	5.2112	26.1000	10.4245	54.9652
2004 - Homestead	13.2295	5.1267	9.1000	8.6644	36.1206
2004 - Non-Homestead	13.2295	5.1267	27.1000	8.6644	54.1206

Other: Includes Commission on Aging, Northwestern Michigan College, Intermediate School District and District Library.

The City's rate does not reflect a two mill levy the Downtown Development District established in 1979.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property Tax Collection History**

Levied July 1st	Tax Levy (1)	Collection to March 1, Year Following Levy	Percent Collected	Collections Plus Funding to June 30, 2003	% Collected Plus Funding June 30, 2002
1997	\$ 5,404,980	\$ 5,131,446	94.9%	\$ 5,404,980	100.00%
1998	5,614,561	5,177,694	92.2	5,614,561	100.00
1999	6,071,833	5,882,146	96.9	6,071,833	100.00
2000	6,388,413	6,038,108	94.5	6,388,413	100.00
2001	6,479,826	6,178,793	95.3	6,479,827	100.00
2002	6,816,556	6,482,462	95.1	6,816,556	100.00
2003	7,434,195	7,077,146	95.2	7,434,195	100.00
2004	7,244,443	6,953,163	96.0	7,244,443	100.00
2005	7,605,969	In process of collection			

(1) Real and personal taxes combined



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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October 28, 2005

Honorable Mayor and  
Members of the City Commission  
City of Traverse City  
Traverse City, Michigan

In planning and performing our audit of the financial statements of the *City of Traverse City* for the year ended June 30, 2005, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 28, 2005, on the financial statements of the *City of Traverse City*.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank management and especially the City Treasurer's office for their support and assistance during the audit of the *City of Traverse City*.

*Rehmann Robson*

City of Traverse City  
Comments and Recommendations  
June 30, 2005

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**CURRENT YEAR MANAGEMENT COMMENTS**

**1) Time card machines for the fire department**

Hourly employees of the fire department record their time manually, and due to the nature of the fire department activities, under little or no supervision. As a result, a dishonest employee has the opportunity to misrepresent the number of hours worked in a day.

We recommend that the City consider purchasing time card machines at the fire department and require each employee to register their time of arrival and departure. The implementation of a time card machine will mitigate the risk of a dishonest employee being compensated for more time that he/she is entitled.

**2) Fraud**

As the issue of fraud arises more and more, we would like to communicate to you several avenues where fraud can be deterred including the following:

- 1) **Requiring periodic job rotation and mandatory vacations.** When an employee within the accounting function stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- 2) **Implementing an employee hotline.** Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.
- 3) **Independent checks of work performed.** Independent checks test another employee's work, such as by having a second employee reperform or test an employee's work.

City of Traverse City  
Comments and Recommendations  
June 30, 2005

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**PRIOR YEAR MANAGEMENT COMMENTS**

**1) Purchase a software system for parking tickets**

When citizens pay parking violations (before the parking ticket is processed into the City's accounts receivable system) the parking ticket is photocopied by the City's accounting department and stamped "paid" and given to the citizen as record of payment. The cash or check received is then set aside and at the end of the day it is secured in the vault for processing at a later time (when the ticket is processed). When funds such as these parking tickets are delayed in being receipted into the accounting system, it allows the opportunity for the funds to be misplaced, misappropriated, or misapplied.

We recommend that the City look into a software system specifically designed to account for parking violations or see if the County's MIS department is able to write a program, which will allow payment of parking tickets to be processed at time of receipt instead at time when the tickets are processed. The new software system should be able to record payment received and apply the payment based on either the parking ticket number, if available or license number of the vehicle, which received the ticket. Once the parking tickets are processed the corresponding credit on the account will be eliminated through either the matching of the ticket numbers or license number of the vehicle, which received the ticket. This will allow a system receipt to be generated at time of payment instead of a manual receipt prepared by the accounting department and it will decrease the possibility of checks and cash being misplaced, misappropriated, or misapplied until processed.

**2) Internal Controls over Investments**

While reviewing the internal controls over investments we noted there were no segregation of duties in place for investments except for the monthly reconciliation performed by the Assistant City Treasurer and Accounting Assistant.

The City Treasurer purchases, redeems, and records the transactions in the accounting system. Each month the Assistant City Treasurer and Accounting Assistant perform the reconciliation from investments on hand to the general ledger. With the Treasurer being able to perform all these functions (purchase, redeem and recording of transactions) without any other individual involved in the process, it allows the Treasurer to sell an investment with no other individual being aware of it until after month end when the Assistant City Treasurer reconciles the investment accounts.

We recommend the City implement a call back policy, where the investment advisor or trustee would call back another individual independent of the City Treasurer to verify the sale of the investment. This policy would add a safeguard to City funds and prevent investment funds being transferred to a non-City bank or investment account.



**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT  
AUTHORITY**

**(A Discrete Component Unit of the  
City of Traverse City, Michigan)**

**Traverse City, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2005**

**CITY OF TRAVERSE CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the**  
**City of Traverse City, Michigan)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

## **INDEPENDENT AUDITORS' REPORT**

September 16, 2005

Board of Trustees  
City of Traverse City Downtown Development Authority  
City of Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the ***City of Traverse City Downtown Development Authority, a discrete component unit of the City of Traverse City, Michigan*** (the "Authority"), as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2005, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund, TIF 2 and TIF 97 Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

# **FINANCIAL STATEMENTS**

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Net Assets**  
**June 30, 2005**

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	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 808,963
Accounts receivable	2,357,749
Prepaid expenses	1,125
Other	<u>2,075</u>
<b>Total assets</b>	<b><u>3,169,912</u></b>
<b>Liabilities</b>	
Accounts payable	9,247
Accrued expenses and other liabilities	15,458
Due to primary government	226,675
Non-current liabilities	
Due in more than one year	<u>28,528</u>
<b>Total liabilities</b>	<b><u>279,908</u></b>
<b>Total net assets - unrestricted</b>	<b><u><u>\$ 2,890,004</u></u></b>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Activities**  
**For the Year Ended June 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue</u>
<b>Discrete component unit</b>			
Economic development	\$ 1,179,786	\$ 1,050,706	\$ (129,080)
	General revenues		
	Property taxes		1,113,385
	Unrestricted investment earnings		<u>13,216</u>
	<b>Total general revenues</b>		<b><u>1,126,601</u></b>
	<b>Change in net assets</b>		<b>997,521</b>
	Net assets, beginning of year		<u>1,892,483</u>
	<b>Net assets, end of year</b>		<b><u>\$ 2,890,004</u></b>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of Traverse City, Michigan)

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

		<b>Special Revenue Funds</b>		<b>Total</b>
	<b>General Fund</b>	<b>TIF 2 Fund</b>	<b>TIF 97 Fund</b>	<b>Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 165,062	\$ 166,303	\$ 477,598	\$ 808,963
Accounts receivable	25,242	307,499	2,025,008	2,357,749
Prepaid expenditures	1,125	-	-	1,125
Work in progress	2,075	-	-	2,075
Due from other funds	12,666	-	-	12,666
<b>Total assets</b>	<b>\$ 206,170</b>	<b>\$ 473,802</b>	<b>\$ 2,502,606</b>	<b>\$ 3,182,578</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 6,144	\$ -	\$ 3,103	\$ 9,247
Accrued expenses and other liabilities	15,458	-	-	15,458
Due to other funds	-	6,333	6,333	12,666
Due to primary government	-	226,675	-	226,675
Deferred revenue	-	307,300	2,023,961	2,331,261
<b>Total liabilities</b>	<b>21,602</b>	<b>540,308</b>	<b>2,033,397</b>	<b>2,595,307</b>
<b>Fund balances</b>				
Reserved for prepaid expenditures	1,125	-	-	1,125
Unreserved				
Undesignated (deficit)	183,443	(66,506)	469,209	586,146
<b>Total fund balance (deficit)</b>	<b>184,568</b>	<b>(66,506)</b>	<b>469,209</b>	<b>587,271</b>
<b>Total liabilities and fund balances</b>	<b>\$ 206,170</b>	<b>\$ 473,802</b>	<b>\$ 2,502,606</b>	<b>\$ 3,182,578</b>

Continued.....

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of the Traverse City, Michigan)

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

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**Reconciliation of fund balances on the balance sheet for governmental funds to  
net assets of governmental activities on the statement of net assets**

Fund balances	\$ 587,271
Amounts reported for governmental activities in the statement of net assets are different because	
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	2,331,261
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued compensated absences	<u>(28,528)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 2,890,004</u></b>

Concluded

The accompanying notes are an integral part of these financial statements.



**DOWNTOWN DEVELOPMENT AUTHORITY**  
(A Discrete Component Unit of the City of Traverse City, Michigan)

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2005**

	<b>General Fund</b>	<b>Special Revenue Funds</b>		<b>Total Governmental Funds</b>
		<b>TIF 2 Fund</b>	<b>TIF 97 Fund</b>	
<b>Revenues</b>				
Property taxes	\$ 66,081	\$ 388,040	\$ 659,264	\$ 1,113,385
Reimbursements	388,715	-	107,600	496,315
Rental income	32,930	-	-	32,930
Interest income	2,528	3,957	6,731	13,216
<b>Total revenues</b>	<b>490,254</b>	<b>391,997</b>	<b>773,595</b>	<b>1,655,846</b>
<b>Expenditures</b>				
Salaries	296,253	-	-	296,253
Fringe benefits	73,586	-	-	73,586
Office supplies and utilities	20,303	373	2,549	23,225
Professional services	14,885	80,824	79,341	175,050
Travel, promotion and conferences	8,108	-	-	8,108
Repairs and maintenance	8,518	-	-	8,518
Rentals	1,986	-	-	1,986
Contributions to other governments	-	6,750	557,107	563,857
Capital outlay	384	-	28,607	28,991
<b>Total expenditures</b>	<b>424,023</b>	<b>87,947</b>	<b>667,604</b>	<b>1,179,574</b>
<b>Net change in fund balances</b>	<b>66,231</b>	<b>304,050</b>	<b>105,991</b>	<b>476,272</b>
Fund balances (deficit), beginning of year	118,337	(370,556)	363,218	110,999
<b>Fund balances (deficit), end of year</b>	<b>\$ 184,568</b>	<b>\$ (66,506)</b>	<b>\$ 469,209</b>	<b>\$ 587,271</b>

Continued....

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

---

**Reconciliation of the statement of revenues, expenditures and changes in  
fund balances for governmental funds to the statement of activities**

Net change in fund balances	\$ 476,272
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	521,461
Deduct: increase in accrued compensated absences	<u>(212)</u>
<b>Change in net assets</b>	<b><u>\$ 997,521</u></b>

Concluded

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**General Fund**  
**For the year ended June 30, 2005**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 65,800	\$ 66,000	\$ 66,081	\$ 81
Reimbursements	415,900	395,050	388,715	(6,335)
Rental income	31,000	31,000	32,930	1,930
Interest income	1,500	2,500	2,528	28
<b>Total revenues</b>	<b>514,200</b>	<b>494,550</b>	<b>490,254</b>	<b>(4,296)</b>
<b>Expenditures</b>				
Salaries	339,000	332,000	296,253	(35,747)
Fringe benefits	80,400	85,600	73,586	(12,014)
Office supplies, rent and utilities	25,600	25,550	20,303	(5,247)
Professional services	21,600	22,000	14,885	(7,115)
Travel, promotion and conferences	13,000	12,000	8,108	(3,892)
Repairs and maintenance	6,400	9,400	8,518	(882)
Rentals	3,000	3,000	1,986	(1,014)
Capital outlay	6,000	5,000	384	(4,616)
<b>Total expenditures</b>	<b>495,000</b>	<b>494,550</b>	<b>424,023</b>	<b>(70,527)</b>
<b>Net change in fund balance</b>	<b>19,200</b>	<b>-</b>	<b>66,231</b>	<b>66,231</b>
Fund balance, beginning of year	118,337	118,337	118,337	-
<b>Fund balance, end of year</b>	<b>\$ 137,537</b>	<b>\$ 118,337</b>	<b>\$ 184,568</b>	<b>\$ 66,231</b>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**Special Revenue Fund - TIF 2**  
**For the year ended June 30, 2005**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 387,100	\$ 387,100	\$ 388,040	\$ 940
Interest income	1,000	4,000	3,957	(43)
<b>Total revenues</b>	<b>388,100</b>	<b>391,100</b>	<b>391,997</b>	<b>897</b>
<b>Expenditures</b>				
Office supplies and utilities	700	500	373	(127)
Professional services	84,200	87,750	80,824	(6,926)
Interest expense	6,750	6,750	6,750	-
<b>Total expenditures</b>	<b>91,650</b>	<b>95,000</b>	<b>87,947</b>	<b>(7,053)</b>
<b>Net change in fund balance</b>	<b>296,450</b>	<b>296,100</b>	<b>304,050</b>	<b>7,950</b>
Fund balance (deficit), beginning of year	(370,556)	(370,556)	(370,556)	-
<b>Fund balance (deficit), end of year</b>	<b>\$ (74,106)</b>	<b>\$ (74,456)</b>	<b>\$ (66,506)</b>	<b>\$ 7,950</b>

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget to Actual**  
**Special Revenue Fund - TIF 97**  
**For the year ended June 30, 2005**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 663,450	\$ 661,600	\$ 659,264	\$ (2,336)
Reimbursements	-	107,600	107,600	-
Interest income	3,000	6,000	6,731	731
<b>Total revenues</b>	<b>666,450</b>	<b>775,200</b>	<b>773,595</b>	<b>(1,605)</b>
<b>Expenditures</b>				
Office supplies	2,700	2,200	2,549	349
Professional services	84,200	88,300	79,341	(8,959)
Capital outlay	-	64,950	28,607	(36,343)
Contribution to other governments	576,350	557,700	557,107	(593)
<b>Total expenditures</b>	<b>663,250</b>	<b>713,150</b>	<b>667,604</b>	<b>(45,546)</b>
<b>Net change in fund balance</b>	<b>3,200</b>	<b>62,050</b>	<b>105,991</b>	<b>43,941</b>
Fund balance, beginning of year	363,218	363,218	363,218	-
<b>Fund balance, end of year</b>	<b>\$ 366,418</b>	<b>\$ 425,268</b>	<b>\$ 469,209</b>	<b>\$ 43,941</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The Downtown Development Authority (the "Authority"), a discrete component unit of the City of Traverse City (the "City"), was created in September 1978 by the City Commission pursuant to Act No. 197 of the Public Acts of 1975 of the State of Michigan. It operates through a Board of Trustees (the "Board") consisting of the Mayor of the City of Traverse City and eleven members approved by the City Commission. The purposes of the Authority are to correct and prevent deterioration of the Downtown Development District, encourage historic preservation, create and implement development plans, and promote economic growth.

The Authority is a discrete component unit of the City because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

**Government-wide and Fund Financial Statements** – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

**CITY OF TRAVERSE CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *TIF 2 and TIF 97 Special Revenue Funds* account for financial resources that are legally restricted for activities within specific districts of the downtown development authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

**Capital Assets** – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported as the City's capital assets.

**Accrued compensated absences** - Employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation accumulates to a maximum of five weeks. Sick leave accumulates and is paid to employees at the time of retirement at one-half of total days accumulated up to a maximum of 120 days (60 paid days). The estimated amount due to employees as of June 30, 2005 is accrued in the government-wide financial statements.

**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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***Fund Equity*** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

***Budgetary Information*** – The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds. The budget is then adopted by the Authority's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations. Professional services were reimbursed from the TIF 2 and TIF 97 in the amount of \$25,000 each, to the City's general fund.

## **2. CASH AND CASH EQUIVALENTS**

The Authority's cash and cash equivalents are considered to be cash on hand and demand deposits with a bank.

The Authority is authorized to invest in the same types of investments as the City.

The Authority's cash and cash equivalents are comprised of bank deposits held with a financial institution and had a balance of \$808,963 at June 30, 2005.

### **Deposits**

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$812,658. Of that amount, \$100,000 was covered by federal depository insurance and the remainder of \$712,658 was uninsured and uncollateralized.



**CITY OF TRAVERSE CITY  
DOWNTOWN DEVELOPMENT AUTHORITY  
(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

**3. RECEIVABLES**

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. This deferred revenue consists of taxes that will be captured in the future by the Brownfield tax districts to reimburse for costs incurred in this and past fiscal years for economic development. At the end of the current fiscal year, the various components of deferred revenue amounted to \$2,331,261. The remaining receivable amount of \$26,488 will be collected within one year.

**4. INTERFUND PAYABLES AND RECEIVABLES**

The composition of interfund balances is as follows as of June 30, 2005:

<u><b>Due From</b></u>	<u><b>Due To</b></u>
	General Fund
Special Revenue Funds	
TIF 2	\$ 6,333
TIF 97	<u>6,333</u>
	<u><b>\$ 12,666</b></u>

Amounts represent administrative expenses payable to the General Fund from the TIF 2 and TIF 97 special revenue funds.

**5. NON-CURRENT LIABILITIES**

Changes in non-current debt consist of the following:

	<u><b>Balance</b></u>	<u><b>Additions</b></u>	<u><b>Reductions</b></u>	<u><b>Balance</b></u>	<u><b>Due</b></u>
	<u><b>07/01/04</b></u>			<u><b>06/30/05</b></u>	<u><b>Within</b></u>
					<u><b>One Year</b></u>
Accrued compensated absences	\$28,316	\$ 212	\$ -	\$28,528	\$ -

Compensated absences are generally liquidated by the General Fund.

**CITY OF TRAVERSE CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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**6. PROPERTY TAXES**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the Downtown Development Authority for the 2004 levy were assessed and equalized at \$36,236,219, representing 50 percent of estimated current market value. The Authority's general operating tax rate for fiscal year 2004-05 was 1.8173 mills.

Property tax revenue for the TIF's, which are included in the Downtown Development Authority, is derived pursuant to two tax increment financing agreements, TIF 2 and TIF 97, between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing districts. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Grand Traverse County. Property tax revenue is recognized when levied in the government-wide financial statements, and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the tax increment financing authority districts to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1985 for TIF 2 and 1997 for TIF 97. The base year on other properties is determined by the date of entry into the district. The taxable value captured for TIF 2 is \$14,961,024 and TIF 97 is \$25,642,680.

**7. RENTAL AND FEE INCOME**

The Authority entered into a contract from September 1, 2004 to August 31, 2005 with the Downtown Traverse City Association (a non-for-profit organization) in which the Authority provides office space and administrative services to the association for an annual fee of \$45,840 payable in equal monthly installments of \$3,820. Income under this contract for the year ended June 30, 2005 was \$45,616.

The Authority entered into a contract with the City Opera House in October 2003 whereby the term of the agreement is indefinite, but may be terminated by the Authority for any or no reason upon 90 days prior written notice. Under the terms of this agreement the Authority agrees to operate, manage and maintain the Opera House at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2005 was \$20,884.

**CITY OF TRAVERSE CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Discrete Component Unit of the City of Traverse City, Michigan)**

**Notes to Financial Statements**

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The Authority entered into a contract with the State Theatre Group in March 2004 whereby the term of the agreement is indefinite, but may be terminated by either party for any or no reason upon 60 days prior written notice. Under the terms of this agreement the Authority agrees to provide administrative staff support to market, advertise and promote the State Theatre Group in a manner consistent with the goals of the organization at an hourly rate agreed upon by both parties. Income under this contract for the year ended June 30, 2005 was \$8,789.

The Authority entered into a contract on June 19, 2003 with the City of Traverse City in which the Authority will operate and manage the Larry C. Hardy Parking Deck for an annual fee of \$205,000 payable in equal monthly installments of \$17,083. Income under this contract for the year ended June 30, 2005 was \$211,597.

**8. RISK OF LOSS**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is covered for these risks through the City of Traverse City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Insurance Fund and commercial health insurance.

**9. TIF 2 FUND DEFICIT**

During prior years, significant expenditures were incurred in the TIF 2 District Fund that were paid for in part through a long-term advance from the City's Industrial Park Fund. The original amount of the long-term advance was \$450,000 and the amount outstanding at June 30, 2005 amounted to \$226,675. These transactions resulted in a deficit fund balance at year-end. The deficit fund balance will be eliminated as future tax revenues are collected.

\* \* \* \* \*

# **Traverse City Light and Power**

**(A Component Unit of the  
City of Traverse City, Michigan)**

## **Financial Statements**

**For the Fiscal Year Ended  
June 30, 2005**

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

## INDEPENDENT AUDITORS' REPORT

October 28, 2005

Honorable Chairman and Members  
Light and Power Board  
Traverse City, Michigan

We have audited the accompanying financial statements of **Traverse City Light and Power** (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Traverse City Light and Power** at June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of **Traverse City Light and Power**. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TRAVERSE CITY LIGHT AND POWER

## Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

GASB 34 financial statement presentation

This year's financial statements and accompanying notes follow the direction of the Governmental Accounting Standards Board (GASB) from their Statement No. 34. GASB is charged with developing "generally accepted accounting principles" (GAAP) for governmental entities and is the ultimate authority on GAAP for state and local governments.

Other highlights:

1. The Department completed 90% of the demolition of the Bayside power plant. The newer portion of the facility was dismantled and sold to Azucarera la Grecia for \$450,000.
2. The Department experienced a significant increase in purchased power expenses in the last half of the year. These expenses were primarily due to the impact of MISO, SECA and other deregulation changes.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. The Department's basic financial statements comprise three components:

1. Fund financial statements
2. Notes to the financial statements, and
3. Supplementary information.

### Fund Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Department is accounted for in a proprietary fund (Enterprise Fund).

*Enterprise funds* distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing electrical services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The demolition/dismantling of the Bayside power plant was considered a non-operating expense in 2005.



The *Balance Sheets* presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the financial statements distinguish the function of the Department, which is principally supported by charges for providing electrical services to customers of Traverse City. The financial statements include only the Department itself. The Department has no legally separate component units for which the Department is financially accountable.

The Department adopts an annual appropriated budget for its fund. A budgetary comparison schedule has been provided herein to demonstrate compliance with that budget.

The Department does not maintain fiduciary funds.

The financial statements can be found on pages 7 through 9 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Department's financial statements. The notes to the financial statements can be found on pages 10 through 20 of this report.

**Other information.** In addition to the financial statements and accompanying notes, this report also presents certain *supplementary information*. Along with this required management discussion and analysis, other supplementary information can be found on pages 21 through 27 of this report.

### **The Department's Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$53,000,000 at the close of the most recent fiscal year, June 30, 2005.

By far, the largest portion of net assets for the Department is its investment in capital assets (primarily, land, construction in progress, building, distribution system and equipment), less any related debt that is still outstanding. The Department uses these capital assets to provide services to customers. Although the Department investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The bulk of the remaining portion of the Department net assets is unrestricted and available for Department activity.

# **Traverse City Light and Power**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Business-type Activities</b>		
Current and other assets	\$ 22,294,814	\$ 21,720,365
Capital assets	<u>34,577,565</u>	<u>33,788,763</u>
Total assets	56,872,379	55,509,128
Long-term liabilities outstanding	338,948	633,601
Other liabilities	<u>3,580,193</u>	<u>2,546,421</u>
Total liabilities	3,919,141	3,180,022
Net assets		
Invested in capital assets, net of unrelated debt	34,267,565	33,183,763
Restricted assets – debt service	5,346	340,515
Unrestricted	<u>18,680,327</u>	<u>18,804,828</u>
<b>Total net assets</b>	<b><u>\$ 52,953,238</u></b>	<b><u>\$ 52,329,106</u></b>

## **Traverse City Light and Power Changes in Net Assets**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Business-type Activities</b>		
Revenue		
Operating revenue		
Charges for services	\$ 23,130,646	\$ 22,219,725
Other	237,402	498,212
Nonoperating revenue		
Reimbursement	1,232,391	162,824
Rental income	14,299	14,299
Interest earned	<u>531,420</u>	<u>313,120</u>
Total revenue	<u>25,146,158</u>	<u>23,208,180</u>
Expenses		
Operating expenses	23,384,714	21,453,250
Nonoperating expenses		
Loss on sale of capital assets	1,121,812	-
Interest expense and fiscal charges	<u>15,500</u>	<u>29,808</u>
Total expenses	<u>24,522,026</u>	<u>21,483,058</u>
Increase in net assets	624,132	1,725,122
Net assets – beginning of year	<u>52,329,106</u>	<u>50,603,984</u>
<b>Net assets – end of year</b>	<b><u>\$ 52,953,238</u></b>	<b><u>\$ 52,329,106</u></b>

## Business-type activities

The overall financial position of the Department remained strong in 2004 - 2005. The Department continued to monitor its rate structure and evaluate its expenses in view of the new deregulation market. The Department's debt remains to be minimal.

## Revenue

In 2004 – 2005, revenue increased due to an increase in the number of customers and a restructuring of our rate classes. We also recorded a transfer of funds from the MPPA trust fund in the amount of \$1,993,540. This transfer was reported as reimbursements and unearned revenue.

## Expenses

In fiscal 2005, operating expenses increased approximately \$902,000 from fiscal 2004. The primary increases was as a result of the increased cost associated with purchased power and the deregulating market.

## Capital Asset and Debt Administration

### Traverse City Light and Power Capital Assets (net of depreciation)

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Land	\$ 843,173	\$ 843,173
Construction in progress	3,760,028	1,579,283
Buildings and improvements	3,690,554	6,267,530
Equipment and distribution system	42,014,493	48,003,747
Accumulated depreciation	<u>(15,730,683)</u>	<u>(22,904,970)</u>
<b>Total</b>	<b><u>\$ 34,577,565</u></b>	<b><u>\$ 33,788,763</u></b>

Additional information on the Department's capital assets can be found in Note 5 on pages 15 through 16 of this report.

Long-term debt consisted of a revenue refunding bond; as of fiscal year end there was an outstanding balance of \$310,000. Additional information can be found in Note 6 on pages 16 through 17 of this report.

## Economic Factors and Next Year's Budgets and Rates

The economic climate for 2005-2006 will continue to be a challenge due to the deregulating market and conditions that will evolve out of the Department's control. The MPPA trust fund money received at the end of fiscal 2005 has been set aside and earmarked for special projects which includes rate stabilization. We are not anticipating a rate change to be effective during the 2005-2006 fiscal year and will offset any rate deficits from this fund.

Our economic outlook continues to be strong and our 2005-2006 budget reflects an operating gain and our ability to weather any unforeseen financial aberrations that may arise.

**Requests for Information**

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Greg Pierce, Deputy Director, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## BALANCE SHEETS

ASSETS	June 30,	
	2005	2004
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,966,882	\$ 4,382,900
Investments	11,911,707	10,815,289
Receivables		
Customer, less allowances of \$51,172 and \$47,162 respectively, for uncollectible accounts	3,196,467	2,431,759
Accrued interest	41,808	3,335
Taxes	-	1,950
Other	79,326	31,356
Inventories	776,322	700,150
Prepaid expenses	13,263	16,307
<b>Total current assets</b>	<b>20,985,775</b>	<b>18,383,046</b>
<b>Restricted assets</b> , including cash and cash equivalents of \$323,096 and \$320,544, respectively	<b>323,096</b>	<b>650,419</b>
<b>Long-term assets</b>		
Long-term advances - due from primary government	951,907	2,618,830
Deferred charges	34,036	68,070
Land	843,173	843,173
Construction in progress	3,760,028	1,579,283
Capital assets, net	29,974,364	31,366,307
<b>Total long-term assets</b>	<b>35,563,508</b>	<b>36,475,663</b>
<b>Total assets</b>	<b>\$ 56,872,379</b>	<b>\$ 55,509,128</b>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	June 30,	
	2005	2004
<b>Current liabilities</b>		
Accounts payable	\$ 1,768,617	\$ 1,669,249
Accrued expenses and other liabilities	375,892	352,871
Current portion of accrued compensated absences	-	17,702
Due to primary government	198,373	196,695
Unearned revenue	919,561	-
<b>Total current liabilities</b>	<b>3,262,443</b>	<b>2,236,517</b>
<b>Liabilities payable from restricted assets</b>		
Current portion of long-term debt	310,000	295,000
Accrued interest payable	7,750	14,904
<b>Total liabilities payable from restricted assets</b>	<b>317,750</b>	<b>309,904</b>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	-	310,000
Compensated absences	338,948	323,601
<b>Total long-term liabilities</b>	<b>338,948</b>	<b>633,601</b>
<b>Total liabilities</b>	<b>3,919,141</b>	<b>3,180,022</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	34,267,565	33,183,763
Restricted assets - debt service	5,346	340,515
Unrestricted	18,680,327	18,804,828
<b>Total net assets</b>	<b>52,953,238</b>	<b>52,329,106</b>
<b>Total liabilities and net assets</b>	<b>\$ 56,872,379</b>	<b>\$ 55,509,128</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2005	2004
<b>Operating revenues</b>		
Charges for services	\$ 23,130,646	\$ 22,219,725
Other	237,402	498,212
<b>Total operating revenues</b>	<b>23,368,048</b>	<b>22,717,937</b>
<b>Operating expenses</b>		
Personnel	3,467,134	3,211,437
Contractual services	626,918	867,482
Repairs and maintenance	166,993	93,855
Office supplies, insurance and other	272,500	309,128
Operating supplies	14,952,051	14,025,914
Rentals	181,459	166,836
Utilities	98,976	93,699
City fee	1,158,373	1,156,695
Depreciation and amortization	1,430,894	1,528,204
<b>Total operating expenses</b>	<b>22,355,298</b>	<b>21,453,250</b>
<b>Operating income</b>	<b>1,012,750</b>	<b>1,264,687</b>
<b>Non-operating revenues (expenses)</b>		
Interest income	531,420	313,120
Loss on sale of capital assets	(1,121,812)	-
Rental income	14,299	14,299
Reimbursement	1,232,391	162,824
Interest expense and financial charges	(15,500)	(29,808)
<b>Total non-operating revenues</b>	<b>640,798</b>	<b>460,435</b>
<b>Income before special item expense</b>	<b>1,653,548</b>	<b>1,725,122</b>
<b>Special item expense</b>		
Plant decommissioning	1,029,416	-
Change in net assets	624,132	1,725,122
Net assets, beginning of year	52,329,106	50,603,984
<b>Net assets, end of year</b>	<b>\$ 52,953,238</b>	<b>\$ 52,329,106</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2005	2004
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 23,476,881	\$ 22,662,285
Cash payments to employees	(3,446,468)	(3,203,141)
Cash payments to suppliers for goods and services	(17,302,073)	(15,912,916)
Cash payments for payment in lieu of tax	(1,156,695)	(1,048,355)
<b>Net cash provided by operating activities</b>	<b>1,571,645</b>	<b>2,497,873</b>
<b>Cash flows from non-capital financing activities</b>		
Long-term advance to primary government	1,666,923	23,943
Rental income	14,299	14,299
Reimbursement	1,232,391	162,824
<b>Net cash provided by non-capital financing activities</b>	<b>2,913,613</b>	<b>201,066</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(3,752,295)	(2,187,996)
Note principal payments	(295,000)	(280,000)
Note interest payments	(22,654)	(36,388)
Proceeds from sale of capital assets	444,820	-
<b>Net cash used in capital and related financing activities</b>	<b>(3,625,129)</b>	<b>(2,504,384)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(766,542)	(3,805,532)
Investment income	492,947	354,612
<b>Net cash used in investing activities</b>	<b>(273,595)</b>	<b>(3,450,920)</b>
Net increase (decrease) in cash and cash equivalents	586,534	(3,256,365)
Cash and cash equivalents, beginning of year	4,703,444	7,959,809
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,289,978</b>	<b>\$ 4,703,444</b>
<b>Balance Sheet Reconciliation</b>		
Cash and cash equivalents	\$ 4,966,882	\$ 4,382,900
Restricted assets-cash equivalents	323,096	320,544
	<b>\$ 5,289,978</b>	<b>\$ 4,703,444</b>

The accompanying notes are an integral part of these financial statements.



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2005	2004
<b>Cash flows from operating activities</b>		
Operating income	\$ 1,012,750	\$ 1,264,687
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,430,894	1,528,204
Plant decommissioning	(1,029,416)	-
Changes in operating assets and liabilities which (used) provided cash		
Receivables	(810,728)	(55,652)
Inventories	(76,172)	(12,085)
Prepaid expenses	3,044	5,381
Accounts payable	99,368	(349,298)
Accrued expenses and other liabilities	23,021	13,302
Due to other governments	1,678	108,340
Unearned revenue	919,561	-
Compensated absences	(2,355)	(5,006)
<b>Net cash provided by operating activities</b>	<b>\$ 1,571,645</b>	<b>\$ 2,497,873</b>

The accompanying notes are an integral part of these financial statements.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF ACCOUNTING POLICIES

#### **Organization**

Under provisions of the City of Traverse City (the “City”) Charter, the Light and Power Board (the “Board”) was created having jurisdiction and control of *Traverse City Light and Power* (the “Department”). The Board consists of seven members (two of which are City commissioners) and one ex-officio member (the City Manager). The Department’s annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City’s General Fund for payment in lieu of taxes. For fiscal 2005 and 2004, transfers of \$1,158,373 and \$1,156,595, respectively, were made to the City.

The Department is a discrete component unit of the City because the City appoints the Department’s Board of Directors, it has the ability to significantly influence the Department’s operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Department is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

#### **Basis of Accounting**

The Department uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

#### **Investments**

Investments are stated at fair value. For fair value, securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The change in fair value of the investments from the beginning of the year to the end of the year is reported in the “Non-operating revenues (expenses)” section of the Statements of Revenues, Expenses and Changes in Net Assets”.

#### **Inventories**

Inventories are valued at cost (first-in, first-out), not in excess of market. Expenditures for maintenance and office supplies are charged to expenses upon purchase.

#### **Deferred Charges**

Deferred charges represent costs incurred in refinancing bonds in 1993 and are being amortized over the life of the bond issue.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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### Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets as follows:

	<u>Years</u>
Buildings and structures	20-50
Power production equipment and distribution system	5-50

### Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee, in accordance with Governmental Accounting Standards Board Statement No. 16 - *Accounting for Compensated Absences*.

### Operating Revenue versus Non-Operating Revenue

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department, are charges to customers for sales and services. Operating expenses for the Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### GASB 20

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### Budgetary Information

The General and special revenue funds are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Department follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Department submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Department's funds. The budget is then adopted by the Department's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

## 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, investments and restricted assets at June 30, 2005 and 2004 are composed of the following:

<u>June 30, 2005</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 4,762,046	\$ 2,502,596	\$ 323,096	\$ 7,587,738
Investments	204,436	9,409,111	-	9,613,547
Petty cash	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
<b>Total</b>	<b><u>\$ 4,966,882</u></b>	<b><u>\$ 11,911,707</u></b>	<b><u>\$ 323,096</u></b>	<b><u>\$ 17,201,685</u></b>
<u>June 30, 2004</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Totals</u>
Deposits	\$ 4,181,087	\$ 1,502,548	\$ 320,544	\$ 6,004,179
Investments	201,363	9,312,741	329,875	9,843,979
Petty cash	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
<b>Total</b>	<b><u>\$ 4,382,900</u></b>	<b><u>\$ 10,815,289</u></b>	<b><u>\$ 650,419</u></b>	<b><u>\$ 15,848,608</u></b>

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City Treasurer. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

The Department is authorized by Michigan Public Act 196 of 1998 and Public Act 20 of 1943 to invest surplus monies in U.S. bonds and notes, certain commercial paper, mutual funds and investment pools that are composed of authorized investment vehicles.

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	02/20/2009	\$ 199,500	AAA
Federal home loan bond	05/21/2007	246,173	AAA
Federal home loan bond	12/29/2006	293,814	AAA
Federal home loan bond	05/12/2009	199,188	AAA
Federal home loan bond	08/08/2007	299,718	AAA
Federal home loan bond	11/17/2006	298,314	AAA
US treasury note	08/15/2008	691,278	AAA
US treasury note	09/15/2008	491,525	AAA
US treasury note	11/15/2006	493,420	AAA
US treasury note	09/15/2008	98,305	AAA
US treasury note	05/31/2006	990,740	AAA
US treasury note	05/15/2007	990,550	AAA
US treasury note	06/15/2009	1,010,780	AAA
US treasury note	05/15/2008	1,002,190	AAA
US treasury note	06/30/2006	992,300	AAA
US treasury note	04/15/2009	97,996	AAA
US treasury note	05/15/2007	1,013,320	AAA
Investment sweep	N/A	204,436	N/A
		<u><b>\$ 9,613,547</b></u>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

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*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$9,613,547 of investments, the City has a custodial credit risk exposure of \$9,613,547 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5% of the Department's investments are in US treasury notes. These investments are 80% of the Department's total investments.

### 3. INVENTORIES

Inventories in the amount of \$776,322 and \$700,150, at June 30, 2005 and 2004, respectively, consist of materials and supplies.

### 4. RESTRICTED ASSETS

The Department accounts for its operations and maintenance activities, including the funding of reserves, as required by the bond ordinances and other authorities. The Department's restricted assets consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Bond reserve account	\$ -	\$ 329,875
Bond and interest redemption	<u>323,096</u>	<u>320,544</u>
<b>Total</b>	<b><u>\$ 323,096</u></b>	<b><u>\$ 650,419</u></b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

### 5. CAPITAL ASSETS

At June 30, 2005 capital assets consist of the following

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 843,173	\$ -	\$ -	\$ 843,173
Construction in progress	<u>1,579,283</u>	<u>2,180,745</u>	<u>-</u>	<u>3,760,028</u>
Total capital assets not being depreciated	<u>2,422,456</u>	<u>2,180,745</u>	<u>-</u>	<u>4,603,201</u>
Capital assets being depreciated				
Buildings and improvements	6,267,530	23,516	(2,600,492)	3,690,554
Equipment and distribution system	<u>48,003,747</u>	<u>1,548,034</u>	<u>(7,537,288)</u>	<u>42,014,493</u>
Total capital assets being depreciated	<u>54,271,277</u>	<u>1,571,550</u>	<u>(10,137,780)</u>	<u>45,705,047</u>
Less accumulated depreciation for				
Buildings and improvements	(2,265,951)	(127,031)	2,114,818	(278,164)
Equipment and distribution system	<u>(20,639,019)</u>	<u>(1,269,829)</u>	<u>6,456,329</u>	<u>(15,452,519)</u>
Total accumulated depreciation	<u>(22,904,970)</u>	<u>(1,396,860)</u>	<u>8,571,147</u>	<u>(15,730,683)</u>
Total capital assets being depreciated, net	<u>31,366,307</u>	<u>174,690</u>	<u>(1,566,633)</u>	<u>29,974,364</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 33,788,763</u></b>	<b><u>\$ 2,355,435</u></b>	<b><u>\$ (1,566,633)</u></b>	<b><u>\$34,577,565</u></b>

At June 30, 2004 capital assets consist of the following

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated – land	\$ 843,278	\$ -	\$ (105)	\$ 843,173
Construction in progress	<u>917,110</u>	<u>2,158,891</u>	<u>(1,496,718)</u>	<u>1,579,283</u>
Total capital assets not being depreciated	<u>1,760,388</u>	<u>2,158,891</u>	<u>(1,496,823)</u>	<u>2,422,456</u>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being Depreciated				
Buildings and improvements	6,213,049	54,481	-	6,267,530
Equipment and distribution system	<u>46,532,300</u>	<u>1,475,947</u>	<u>(4,500)</u>	<u>48,003,747</u>
Total capital assets being depreciated	<u>52,745,349</u>	<u>1,530,428</u>	<u>(4,500)</u>	<u>54,271,277</u>
Less accumulated depreciation for				
Buildings and improvements	(2,121,914)	(144,037)	-	(2,265,951)
Equipment and distribution system	<u>(19,288,886)</u>	<u>(1,350,133)</u>	<u>-</u>	<u>(20,639,019)</u>
Total accumulated depreciation	<u>(21,410,800)</u>	<u>(1,494,170)</u>	<u>-</u>	<u>(22,904,970)</u>
Total capital assets being depreciated, net	<u>31,334,549</u>	<u>36,258</u>	<u>(4,500)</u>	<u>31,366,307</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 33,094,937</u></b>	<b><u>\$ 2,195,149</u></b>	<b><u>\$ (1,501,323)</u></b>	<b><u>\$33,788,763</u></b>

The loss on sale of capital assets in the amount of \$1,121,812 at June 30, 2005 results from the decommissioning of the Bayside Plant. The value of the Bayside Plant after depreciation of \$1,571,812 less the proceeds received from the sale of \$450,000 amounted to the loss on sale of \$1,121,812.

### 6. LONG-TERM DEBT

Long-term debt at June 30, 2005 consists of the following

	<u>Electric Utility System Revenue Refunding Bonds</u>	<u>Compensated Absences</u>
Beginning Balance, July 1, 2004	\$ 605,000	\$ 341,303
Additions	-	-
Reductions	<u>(295,000)</u>	<u>(2,355)</u>
<b>Ending Balance, June 30, 2005</b>	<b><u>\$ 310,000</u></b>	<b><u>\$ 338,948</u></b>
<b>Due within one year</b>	<b><u>\$ 310,000</u></b>	<b><u>\$ -</u></b>



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

Long-term debt at June 30 2004, consists of the following

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2003	\$ 885,000	\$ 346,309
Additions	-	-
Reductions	<u>(280,000)</u>	<u>(5,006)</u>
<b>Ending Balance, June 30, 2004</b>	<b><u>\$ 605,000</u></b>	<b><u>\$ 341,303</u></b>
<b>Due within one year</b>	<b><u>\$ 295,000</u></b>	<b><u>\$ 17,702</u></b>

The original issue of Electric Utility System Revenue Refunding Bonds was \$2,420,000 in 1993, with principal due in annual installments of \$20,000 to \$310,000 through July 2005, and interest at 3.10% to 5% payable semi-annually.

In 1986, the Department defeased Series 1984 revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Department's financial statements. At June 30, 2005 and 2004, \$625,000 and \$900,000, respectively, of the Series 1984 bonds outstanding are considered defeased.

### 7. POWER SUPPLY PURCHASE

The Department along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant and an 18.61% undivided interest in the Detroit Edison Company Belle River project, and 75.9% undivided interest in the Combustion Turbine project.

In 1983, the Department entered into a 35 year power supply and project support contract with MPPA. Under the agreement, *Traverse City Light and Power* will purchase 26.35% of the energy generated by the Campbell 3 plant and 4.53% of the energy generated by the Belle River plant.

For the years ended June 30, 2005 and 2004, *Traverse City Light and Power* recognized expenses totaling \$14,318,421 and \$9,820,828, respectively, to purchase power under the terms of the contract. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## NOTES TO FINANCIAL STATEMENTS

Under the terms of the contract, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). The estimated total annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

<b><u>Year Ended December 31</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$ 2,002,074	\$ 2,161,228	\$ 4,163,302
2007	2,100,144	2,064,643	4,164,787
2008	2,203,788	1,963,899	4,167,687
2009	2,313,742	1,851,640	4,165,382
2010	2,249,546	1,734,726	3,984,272
2011-2015	11,346,176	6,997,213	18,343,389
2016-2020	9,197,513	4,225,540	13,423,053
2021-2025	7,521,690	2,167,306	9,688,996
2026-2027	<u>3,590,070</u>	<u>285,108</u>	<u>3,875,178</u>
	<b><u>\$ 42,524,743</u></b>	<b><u>\$ 23,451,303</u></b>	<b><u>\$ 65,976,046</u></b>

### 8. SPECIAL ITEM

During the fiscal year the Department decommissioned the Bayside Plant. As a result, the Department incurred expenses in the amount of \$1,029,416 and has been recorded as a special item due to the project being under management's control and infrequent in nature.

### 9. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System, a defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the years ended June 30, 2005 and 2004 were \$429,017 and \$345,602 respectively. The disclosure requirements of the Governmental Accounting Standards Board Statement Number 27 are outlined in the City's Financial Statements.

### 10. COMMITMENTS

In September 1994, the Department purchased \$840,000 of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers"). The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department Board. The Department will take possession of these facilities in three stages: one-third in September, 1994; one-third in September, 2004; and one-third in September, 2014.

# **TRAVERSE CITY LIGHT AND POWER**

**(A Component Unit of the City of Traverse City, Michigan)**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Construction**

During 2005, the Department entered into the following contracts:

Waukesha Electric Systems for the installation of a power transformer in the amount of \$353,900. No project costs were expended through June 30, 2005. The project is expected to be completed during fiscal 2006.

Hydaker-Wheatlake Company for the installation of a substation in the amount of \$891,222. Project costs through June 30, 2005 were \$563,320. Total remaining estimated cost is \$327,902. The project is expected to be completed during fiscal 2006.

### **Property**

During fiscal 2004, the Department entered into an agreement to lease various parcels of property that requires annual rental payments of \$1. Under the lease agreement, the Department must maintain the property, carry adequate insurance and pay all assessments and property taxes. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contribution revenue and lease expense. This lease expires July 2023.

## **11. CONTINGENCIES**

In the normal course of its activities, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$3,014,729 and \$2,855,398 within net assets at June 30, 2005 and 2004, respectively to cover the potential impact of current and future uninsured claims.

## **12. RISK OF LOSS**

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property pool, Michigan Municipal Workers Compensation Self Insurers Fund and commercial health insurance.

**TRAVERSE CITY LIGHT AND POWER**  
**(A Component Unit of the City of Traverse City, Michigan)**  
**NOTES TO FINANCIAL STATEMENTS**

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**13. DESIGNATIONS OF NET ASSETS**

The following are designations of unrestricted net assets established by the Board

	<b>June 30. 2005</b>	<b>June 30. 2004</b>
Maintenance contingencies	\$ 2,867,337	\$ 2,867,337
Bayside decommissioning	470,584	1,500,000
Hydro decommissioning	850,000	850,000
Emergencies	99,519	100,000
Uninsured claims	3,014,729	2,855,398
Capital expansion	<u>2,637,750</u>	<u>6,400,000</u>
<b>Total</b>	<b><u>\$ 9,939,919</u></b>	<b><u>\$ 14,572,735</u></b>

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# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE NET BALANCES AT JUNE 30, 2004)

	Year Ended June 30, 2005			
	Capital Assets - Cost			
	Balance at June 30, 2004	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2005
Land	\$ 597,537	\$ -	\$ -	\$ 597,537
Land - coal dock	245,636	-	-	245,636
<b>Total land</b>	<b>843,173</b>	<b>-</b>	<b>-</b>	<b>843,173</b>
Buildings				
Steam plant	1,866,905	-	1,866,905	-
Keystone plant	3,191	-	-	3,191
Brown Bridge	2,701	-	-	2,701
Distribution plant	3,640,786	22,941	-	3,663,727
Water filtration	240	-	240	-
Office structures	43,918	575	23,558	20,935
Burke coal dock	709,789	-	709,789	-
<b>Total buildings</b>	<b>6,267,530</b>	<b>23,516</b>	<b>2,600,492</b>	<b>3,690,554</b>
Equipment and distribution system				
Steam plant	7,544,801	-	7,544,801	-
Sabin Dam	1,442,689	-	-	1,442,689
Boardman Dam	2,630,952	-	-	2,630,952
Union St. Dam	-	24,010	-	24,010
Keystone plant	58,130	-	-	58,130
Keystone interconnect	503,445	-	-	503,445
Brown Bridge	145,372	-	-	145,372
Wind generation unit	763,860	-	-	763,860
Transmission	34,063,606	1,531,415	-	35,595,021
General	834,395	16,619	-	851,014
Coal dock	11,830	-	11,830	-
Ash pit wells	4,667	-	4,667	-
<b>Total equipment and distribution system</b>	<b>48,003,747</b>	<b>1,572,044</b>	<b>7,561,298</b>	<b>42,014,493</b>
<b>Construction-in-progress</b>	<b>1,579,283</b>	<b>2,180,745</b>	<b>-</b>	<b>3,760,028</b>
<b>Total</b>	<b>\$ 56,693,733</b>	<b>\$ 3,776,305</b>	<b>\$ 10,161,790</b>	<b>\$ 50,308,248</b>

Accumulated Depreciation				Capital Assets - Net	
Balance at June 30, 2004	Current Depreciation	Deletions	Balance at June 30, 2005	Balance at June 30, 2005	Balance at June 30, 2004
\$ -	\$ -	\$ -	\$ -	\$ 597,537	\$ 597,537
-	-	-	-	245,636	245,636
-	-	-	-	<b>843,173</b>	<b>843,173</b>
1,626,319	7,678	1,633,997	-	-	240,586
3,191	-	-	3,191	-	-
2,227	52	-	2,279	422	474
162,614	108,959	-	271,573	3,392,154	3,478,172
210	2	212	-	-	30
20,525	698	20,102	1,121	19,814	23,393
450,865	9,642	460,507	-	-	258,924
<b>2,265,951</b>	<b>127,031</b>	<b>2,114,818</b>	<b>278,164</b>	<b>3,412,390</b>	<b>4,001,579</b>
6,412,114	27,768	6,439,882	-	-	1,132,687
755,610	43,281	-	798,891	643,798	687,079
1,500,503	96,292	-	1,596,795	1,034,157	1,130,449
-	15,549	-	15,549	8,461	-
57,995	12	-	58,007	123	135
399,283	15,103	-	414,386	89,059	104,162
98,114	3,556	-	101,670	43,702	47,258
194,786	22,916	-	217,702	546,158	569,074
10,557,035	1,010,800	-	11,567,835	24,027,186	23,506,571
647,133	34,551	-	681,684	169,330	187,262
11,779	1	11,780	-	-	51
4,667	-	4,667	-	-	-
<b>20,639,019</b>	<b>1,269,829</b>	<b>6,456,329</b>	<b>15,452,519</b>	<b>26,561,974</b>	<b>27,364,728</b>
-	-	-	-	<b>3,760,028</b>	<b>1,579,283</b>
<b>\$ 22,904,970</b>	<b>\$ 1,396,860</b>	<b>\$ 8,571,147</b>	<b>\$ 15,730,683</b>	<b>\$ 34,577,565</b>	<b>\$ 33,788,763</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	<b>2005 Budget</b>	<b>2005 Actual</b>	<b>Actual Over (Under)</b>	<b>2004 Actual</b>
Operating revenues - sales				
Residential	\$ 3,807,050	\$ 3,835,711	\$ 28,661	\$ 3,722,019
Commercial	11,735,500	11,638,855	(96,645)	11,056,127
Industrial	7,238,900	7,168,710	(70,190)	6,801,266
Public authority	468,550	215,487	(253,063)	368,941
Street lighting	180,250	185,808	5,558	182,922
Yard lights	89,600	86,075	(3,525)	88,450
<b>Total operating revenues - sales</b>	<b>23,519,850</b>	<b>23,130,646</b>	<b>(389,204)</b>	<b>22,219,725</b>
Other operating revenues				
Forfeited discounts	50,000	49,774	(226)	48,358
Merchandise and jobbing	70,000	81,247	11,247	61,619
Sale of scrap	10,000	54,085	44,085	14,873
Recovery of bad debts	1,000	627	(373)	723
Miscellaneous	50,000	51,669	1,669	372,639
<b>Total other operating revenues</b>	<b>181,000</b>	<b>237,402</b>	<b>56,402</b>	<b>498,212</b>
Non-operating revenues				
Interest income	450,000	531,420	81,420	313,120
Gain on sale of capital assets	-	-	-	-
Rental income	2,000	-	(2,000)	-
Reimbursement	100,000	1,232,391	1,132,391	162,824
Pole rental income	14,000	14,299	299	14,299
<b>Total non-operating revenues</b>	<b>566,000</b>	<b>1,778,110</b>	<b>1,212,110</b>	<b>490,243</b>
<b>Total revenues</b>	<b>24,266,850</b>	<b>25,146,158</b>	<b>879,308</b>	<b>23,208,180</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	2005 Amended Budget	2005 Actual	Actual Over (Under)	2004 Actual
<b>Generation Expense</b>				
Operating				
Station labor	\$ 268,000	\$ 286,734	\$ 18,734	\$ 267,547
Payroll taxes and fringes	183,500	158,005	(25,495)	146,301
Campbell No. 3 power	2,805,000	3,130,284	325,284	2,996,796
Belle River No. 1 power	3,140,300	3,207,990	67,690	2,957,045
Combustion turbine	3,504,000	3,467,140	(36,860)	3,866,447
Hydro fees	52,000	83,473	31,473	81,799
Purchased power	4,404,600	4,513,008	108,408	3,423,386
Coal	-	-	-	-
Utilities				
Telephone	4,000	7,689	3,689	7,343
Water	10,000	2,559	(7,441)	21,377
Coal dock	15,000	27,966	12,966	9,175
Miscellaneous supplies	2,000	(6,743)	(8,743)	7,306
Professional development	8,000	3,947	(4,053)	6,861
Inventory adjustments	-	3,076	3,076	10,288
Total generation operating expenses	14,396,400	14,885,128	488,728	13,801,671



# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	2005 Amended Budget	2005 Actual	Actual Over (Under)	2004 Actual
<b>Generation Expense (continued)</b>				
Maintenance				
Labor	\$ 278,000	\$ 325,864	\$ 47,864	\$ 268,099
Payroll taxes and fringes	119,200	137,497	18,297	108,438
Structures	-	188	188	2,342
Ash hauling	500	-	(500)	450
Coal storage	-	-	-	50
Coal dock	5,000	2,213	(2,787)	1,401
Furnaces and boilers	-	-	-	109
Boiler apparatus	-	-	-	341
Steam piping	-	-	-	262
Wind generator	12,500	2,823	(9,677)	5,896
Boardman River	6,000	12,761	6,761	5,305
Brown Bridge	92,000	19,712	(72,288)	29,151
Professional development	-	-	-	-
Prime movers - generators	-	-	-	185
Accessory electrical equipment	5,000	163	(4,837)	4,806
Auxiliary power plant equipment	13,000	54,454	41,454	89,096
Water pumps - steam plant	-	5	5	-
Small tools	3,000	3,651	651	2,327
Sabin Dam	76,500	20,628	(55,872)	10,280
Boardman Dam	115,000	64,396	(50,604)	92,980
Elk Rapids Dam	(9,500)	(19,937)	(10,437)	(12,492)
Equipment rental	27,600	32,357	4,757	27,003
Equipment fuel	5,000	8,361	3,361	6,633
Elevator	-	3,196	3,196	1,124
Miscellaneous	13,000	14,706	1,706	9,488
Total generation maintenance expense	761,800	683,038	(78,762)	653,274
<b>Total generation expense</b>	<b>15,158,200</b>	<b>15,568,166</b>	<b>409,966</b>	<b>14,454,945</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED) FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	<b>2005 Amended Budget</b>	<b>2005 Actual</b>	<b>Actual Over (Under)</b>	<b>2004 Actual</b>
<b>Distribution Expense</b>				
Operating				
Labor	\$ 144,000	\$ 148,336	\$ 4,336	\$ 140,520
Payroll taxes and fringes	89,500	92,887	3,387	84,047
Professional development	170,000	4,093	(165,907)	47,780
Office supplies	6,500	3,694	(2,806)	7,401
Utilities	34,000	52,893	18,893	51,114
Equipment rental	75,000	67,075	(7,925)	66,825
Equipment fuel	9,000	13,926	4,926	11,006
Miscellaneous	25,000	25,086	86	23,532
Total operating expense	553,000	407,990	(145,010)	432,225
Maintenance				
Labor	940,000	979,688	39,688	982,369
Payroll taxes and fringes	421,500	503,151	81,651	436,880
Substation	38,500	48,543	10,043	70,510
Lines	218,000	188,082	(29,918)	212,221
Poles and fixtures	40,000	15,944	(24,056)	43,766
Conductors and devices	7,000	2,720	(4,280)	803
Underground cabling	28,000	58,082	30,082	35,323
Transformers and devices	25,000	9,352	(15,648)	12,933
Services	6,000	2,598	(3,402)	8,254
Meters	20,000	17,147	(2,853)	18,865
Street lighting	13,000	7,931	(5,069)	29,590
Equipment Rental	50,000	77,639	27,639	66,478
Radio equipment	5,000	1,969	(3,031)	2,512
Equipment fuel	9,500	14,224	4,724	11,144
Maintenance - building and grounds	22,400	140,476	118,076	68,959
Small tools	20,000	20,465	465	17,926
Miscellaneous	29,000	37,032	8,032	29,676
Total maintenance expense	1,892,900	2,125,043	232,143	2,048,209
<b>Total distribution expense</b>	<b>2,445,900</b>	<b>2,533,033</b>	<b>87,133</b>	<b>2,480,434</b>

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

(WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	<b>2005 Amended Budget</b>	<b>2005 Actual</b>	<b>Actual Over (Under)</b>	<b>2004 Actual</b>
<b>Customer Accounting Expense</b>				
Salaries	\$ 140,000	\$ 130,436	\$ (9,564)	\$ 155,740
Meter reading	76,000	86,751	10,751	71,429
Payroll taxes and fringes	81,000	77,728	(3,272)	68,054
Office supplies	2,500	2,161	(339)	2,349
Postage	30,000	26,699	(3,301)	29,350
Stationary and printing	10,000	5,681	(4,319)	6,239
Equipment rental	6,000	4,388	(1,612)	5,600
Uncollectible accounts	60,000	8,973	(51,027)	8,952
Collection expense	1,500	661	(839)	2,630
Data processing	40,000	28,552	(11,448)	30,625
Professional development	2,000	1,669	(331)	1,637
Miscellaneous	11,000	13,034	2,034	9,159
<b>Total customer accounting expense</b>	<b>460,000</b>	<b>386,733</b>	<b>(73,267)</b>	<b>391,764</b>
<b>Public Service Expense</b>				
Public service information	338,850	215,581	(123,269)	260,341

# TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE BALANCES AT JUNE 30, 2004)

	2005 Amended Budget	2005 Actual	Actual Over (Under)	2004 Actual
<b>General Administration Expense</b>				
Salaries	\$ 370,000	\$ 393,564	\$ 23,564	\$ 350,617
Payroll taxes and fringes	126,000	146,493	20,493	131,396
Professional development	31,000	42,539	11,539	57,941
Office supplies	7,000	9,561	2,561	9,191
Fees and dues	53,000	55,827	2,827	49,239
Special services	120,000	134,629	14,629	210,536
Legal fees	110,000	103,748	(6,252)	161,590
Telephone	5,500	7,869	2,369	4,690
Rent	-	-	-	880
Miscellaneous	6,000	6,307	307	15,229
<b>Total general administration expense</b>	<b>828,500</b>	<b>900,537</b>	<b>72,037</b>	<b>991,309</b>
<b>Other expenses</b>				
Insurance - general	300,000	161,981	(138,019)	189,558
Loss on sale of capital assets	-	1,121,812	1,121,812	-
Depreciation and amortization	1,204,000	1,430,894	226,894	1,528,204
City fee	1,150,000	1,158,373	8,373	1,156,695
Interest expense	22,650	15,500	(7,150)	29,808
<b>Total other expenses</b>	<b>2,676,650</b>	<b>3,888,560</b>	<b>1,211,910</b>	<b>2,904,265</b>
<b>Special item expense</b>				
Plant decommissioning	1,500,000	1,029,416	(470,584)	189,558
<b>Total expenses</b>	<b>23,408,100</b>	<b>24,522,026</b>	<b>1,113,926</b>	<b>21,672,616</b>
<b>Net income (loss)</b>	<b>\$ 858,750</b>	<b>\$ 624,132</b>	<b>\$ (234,618)</b>	<b>\$ 1,725,122</b>